

# ***Certain Reports and Proposals on Foreign Aid***

***... Prepared by***

The Executive Secretariat

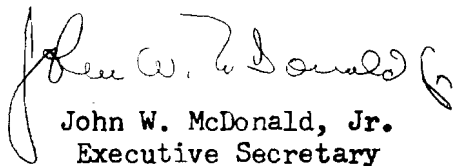
International Cooperation Administration

September 15, 1956

MEMORANDUM TO RECIPIENTS

Attached is a composite selection of summary reports on certain of the more important studies and surveys on foreign aid conducted over the last several years -- since 1947. It will be noted that the reports have been grouped into three sections -- the first includes studies undertaken prior to and in preparation for implementation of the Marshall Plan; the second section includes studies undertaken since 1950; and the third section contains some of the new proposals offered in recent months as to new directions the program might move into.

No attempt has been made in preparing this collection to be comprehensive or to cover every study or survey on record. Rather, it is intended primarily as a guide and source of quick reference on the major unclassified reports of the past and on what appear to be some of the more significant new ideas likely to be considered and debated in discussions of foreign aid during the coming months.

  
John W. McDonald, Jr.  
Executive Secretary

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IN PREPARATION FOR IMPLEMENTATION  
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PART I

STUDIES UNDERTAKEN PRIOR  
TO AND IN PREPARATION FOR  
IMPLEMENTATION OF THE MARSHALL PLAN

# THE IMPACT OF FOREIGN AID UPON THE DOMESTIC ECONOMY

A Report to the President  
by the Council of Economic Advisers

October 1947

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This report, which was made at the request of the President, considered the extent of the burdens that would be imposed on the economy of the United States by providing further foreign aid during the next few years and the capacity of the economy to support those burdens. As a companion to the Krug Report on the impact of foreign aid on U.S. national resources and physical capacities, the CEA report concentrated on the effects of exports, partially Government-financed, upon domestic production, consumption, and prices.

Based on an examination of the effects of past aid in terms of the size of the export surplus and domestic consumption and the effects on price levels to date, the CEA report reflected the following findings and conclusions with respect to the general impact of a new foreign aid program:

In the absence of a new aid program, it was likely that the U.S. export surplus would sink to an annual rate of 4 to 5 billion dollars by the following year-1948--contrasted with the 13 billion dollar annual rate in the second quarter of 1947 and an estimated then current rate of about 10 billion dollars. Assuming that imports would remain at approximately the then current level of about 8 billion dollars a year, it was estimated that total U.S. exports during the next year would sink to an annual rate of 13 billion dollars or less, compared to an annual rate of 21 billion dollars in the second quarter of 1947 and an estimated then current annual rate of about 18 billion dollars. It was believed the major reductions would occur in exports to Europe.

The report stated that while this rapid reduction in exports would probably not inflict serious short run damage on the U.S. economy, substantial problems of readjustment would be generated. Moreover, the industrial paralysis which could be expected to result in some other countries would have repercussions of major proportions upon our own economy and upon world stability.

The report assumed for illustrative purposes a foreign aid figure based upon the Paris Conference Report which would reach a maximum annual rate of 8 billion dollars during the first year, including about 1 billion dollars already authorized, and which would produce a maximum export surplus of about 12 billion dollars a year. This would mean total exports at a peak of not more than 20 billion dollars a year, assuming 8 billion dollars of imports. Since these levels were lower than those reached during the second quarter of 1947 and were expected to decline appreciably from year to year, the CEA concluded that the export surplus resulting from any future foreign aid program would at no time equal, and for most of the time would be substantially less, than the levels reached during 1947.

In view of the long-run prospect for increasing American output if maximum employment and production were maintained, these facts led to the conclusion that the general impact of a new foreign aid program of the assumed size upon the American economy could be sustained because a larger impact had already been sustained. The report stressed, however, that problems raised by specific commodities in relatively short supply could distort or overturn this generally optimistic picture if not dealt with effectively.

NATIONAL RESOURCES AND FOREIGN AID  
("The Krug Report")

by

J. A. Krug, Secretary of the Interior

October 9, 1947

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The purpose of this study was to determine the effects of a program of foreign aid upon our national resources, particularly our raw materials, our manpower, and our production facilities. Its scope covered extensive studies of the availability, current utilization, and potential expansion of our resources--including surveys of the major nonexportable resources--manpower, electric power, and transportation--and statements concerning the current and prospective production, consumption, export, and resource reserve position of major commodities and commodity groups. The commodities selected for study were those representing the bulk of current exports and most likely to be required for a foreign aid program. A brief study of the levels and pattern of U.S. foreign trade was also included in order to provide perspective on the relative magnitude of foreign aid exports.

The fundamental question to which these studies sought to provide an answer was whether the economy of the U.S. could support, in terms of its physical impact, a program of foreign aid.

In discussing world needs and United States capacities, the report stated at the outset:

"The current high levels of production and consumption in the United States are creating, in a number of specific and important areas of our economy, certain difficult supply impacts that must be faced. They are also aggravating generally the urgent need for extending our programs for the conservation, development, and expansion of the Nation's resources. Even though foreign aid exports in general are a small proportion of our domestic production or requirements and their drain upon our resources relatively minor, they point up the need for finding solutions to several important supply problems and emphasize the importance of broadening our conservation practices and building up our stockpiles of strategic minerals."

Findings developed from the underlying studies showed that the problems created by the impact of a possible foreign aid program upon the economy of the U.S. would be of two sorts. Most immediately, there would be the supply impacts: the problems of obtaining adequate supplies of the commodities which are not currently being produced in sufficient quantities to satisfy all demands. To meet these problems, the report declared it would be necessary either to increase production through expanding capacity or utilizing existing capacity more intensively, or to divert consumption from less essential domestic and foreign uses to more essential ones.

Also cited were the resource impacts: the problems of preventing the combined domestic and foreign drain on our natural resources from depleting them at uneconomic or unsafe rates. The report states these could be met either by restricting production, and so running into conflict with the requirements of sound economic policy, both domestic and foreign, or by adopting conservation practices which will permit maximum rates of production to be attained with safety.

With respect to the supply impacts on specific items the report set forth the following findings:

- |                 |  |
|-----------------|--|
| <u>Wheat</u>    | - We can continue to supply large quantities of wheat for foreign aid without substantial reduction of food supplies in this country or undue drain on our soil resources assuming average weather and our continued ability to plant in the Great Plains.   |
| <u>Nitrogen</u> | - The foreign aid program should be designed to increase production of nitrogen by employing unused capacity in Europe and elsewhere to help to meet the current world food shortage and to minimize imports of food by aided countries. To this end coal and industrial equipment shipments for nitrogen fertilizer production should be given high priority.       |
| <u>Coal</u>     | - The problem of producing enough coal to meet our own requirements and those for export is not a coal resource problem but primarily a transportation problem. We must make most effective use of available transportation equipment and arrange for the procurement of coal for foreign aid under procedures that will minimize the impact on the domestic market. |

### Steel

- Maintenance of substantial European demands for American steel will aggravate a serious domestic supply situation. Industry and Government cooperation is needed to make raw materials, including coke and scrap, available and otherwise to assure full utilization of existing capacity. Continued consideration must be given to increasing domestic capacity for future needs in such a manner as to minimize the effect of taking steel from current critical uses. In the light of the world steel shortage, supplies made available for export should be channeled to the most important uses.

### Industrial

#### Equipment

- Supply problems on machinery and equipment items, unlike the other supply problems, are capable of less precise evaluation in the absence of definite requirements. Their solution, moreover, is likely to be brought about by more careful attention to individual problems to assure the supply of specific items necessary for a coordinated reconstruction program. The impact of these exports will be lessened in many instances by a solution of the steel bottlenecks.

In summation, the findings deriving from this review of U.S. resources indicated that, from the standpoint of preserving both the national security and our standard of living, the U.S. economy in general was physically capable of providing the resource requirements of a considerable program of foreign aid. The report pointed out, however, that certain shortages resulting from our own current high levels of consumption would be intensified. These shortages, particularly in such essential commodities as wheat, steel, coal, nitrogen fertilizer, and certain items of industrial equipment, presented the immediate problems of supply and consequent economic repercussions, and that the effectiveness of the foreign aid program was dependent on intelligent and prompt handling of these problems. The report indicated further that the supply impacts could be minimized to a considerable extent by establishing effective procedures for the program for careful screening of requirements and for the channeling of supplies so that they would be effective in maintaining our own production and in providing the means for rehabilitation abroad.

EUROPEAN RECOVERY AND AMERICAN AID

by the President's Committee on Foreign Aid  
(The "Harriman Committee")

November 7, 1947

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The President's Committee on Foreign Aid, known as the "Harriman Committee" carried the major responsibility for anticipating the problems that would arise, and for laying a groundwork of analysis essential to the establishment of policies for a sound program to implement the plan for European recovery introduced by General Marshall in his speech at Harvard on June 5, 1947. The committee was a nineteen-member nonpartisan advisory group composed of "distinguished citizens" representing major sectors of American life:

The Honorable W. Averell Harriman  
Secretary of Commerce  
Chairman

Hiland Batcheller, President,  
Allegheny-Ludlum Steel Corp.,  
Pittsburgh, Pennsylvania

Robert Earle Buchanan, Dean,  
Graduate College,  
Iowa State College,  
Ames, Iowa

W. Randolph Burgess, Vice Chairman,  
National City Bank of New York  
New York, N. Y.

James B. Carey, Secretary-Treasurer,  
C.I.O.,  
Washington, D. C.

John L. Collyer, President,  
B. F. Goodrich Company  
Akron, Ohio

Granville Conway, President,  
Cosmopolitan Shipping Co., Inc.,  
New York, N. Y.

Calvin B. Hoover, Dean,  
Graduate School,  
Duke University,  
Durham, North Carolina

Robert Koenig, President,  
Ayrshire Collieries Co.,  
Indianapolis, Indiana

Robert M. LaFollette, Jr.,  
Washington, D. C.

Edward S. Mason, Dean,  
School of Public Administration,  
Harvard University,  
Cambridge, Massachusetts

George Meany, Secretary-Treasurer,  
American Federation of Labor,  
Washington, D. C.

Harold G. Moulton, President,  
The Brookings Institution,  
Washington, D. C.

Melville F. Coolbaugh  
Colorado School of Mines,  
Golden, Colorado

Chester C. Davis, President,  
Federal Reserve Bank,  
St. Louis, Missouri

R. R. Deupree, President,  
Procter and Gamble Co.,  
Cincinnati, Ohio

Paul G. Hoffman, President,  
Studebaker Corporation  
South Bend, Indiana

William I. Myers, Dean,  
College of Agriculture,  
Cornell University,  
Ithaca, New York

Robert Gordon Sprout, President,  
University of California,  
Berkeley, California

Owen D. Young,  
Honorary Chairman of the  
Board of Directors  
General Electric Co.  
Van Hornesville, New York

Richard M. Bissell, Jr., Executive Secretary

The idea for such an advisory council originated with a recommendation by Senator Vandenberg during a bipartisan consultation at the White House shortly after General Marshall's speech. The committee was formally appointed by the President on June 22, 1947, to advise on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries and on the relation which should exist between such assistance and our domestic economy.

The committee and its staff worked throughout the summer and into the autumn and transmitted its 286-page report to the President on November 7, 1947. The basic conclusions of the President's Committee on Foreign Aid as set forth in the report may be summarized very briefly as follows:

1. The hope of Western Europe depends primarily on the industry and straight thinking of its own people.
2. The United States has a vital interest--humanitarian, economic, strategic, and political--in helping the participating countries to achieve economic recovery.
3. The aid which the United States gives will impose definite sacrifice on this country.
4. The magnitude of Western Europe's deficit with the American Continent in 1948 will be of the order of 7 billion dollars, but when all possibilities of financing are taken into consideration, the approximate need for appropriations past and future to cover the calendar year of 1948 may be of the order of 5.75 billion dollars.

5. The extension of such aid, now or in the future, calls for anti-inflationary fiscal policies on the part of this country, and a new independent agency to administer the aid extended. The head of this agency should be appointed by the President and confirmed by the Senate. A board of directors should be appointed, representing the Departments of Government concerned with the program, including the Secretary of State and such other persons as the Congress may see fit to add. The head of the new organization should be Chairman of the Board, which should have power only to establish and adjust general policies within the framework of Congressional action.

The new organization must have a chief representative in Europe, reporting directly to the head of that organization, and responsible to him, to deal with the continuing committee set up by the participating countries, and also to coordinate the activities of the various local representatives of the organization who will be needed in the different countries.

As a final word, both on the magnitude of the program recommended and on the policies outlined, the report emphasized that success depends on giving way neither to over-optimism or to undue pessimism. It is one thing to propose a program, it said, it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.

## REPORT OF THE HERTER COMMITTEE

(Final Report on Foreign Aid of the  
House Select Committee on Foreign Aid)

May 1, 1948

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On July 29, 1947, the House of Representatives, through House Resolution No. 296, created a select committee of nineteen members to study the proposal that had been launched by General Marshall in his speech at Harvard on June 5th. Its membership, drawn only in part from the Foreign Affairs Committee, included a geographically and politically representative cross section of the House:

Charles A. Eaton, New Jersey, Chairman  
Christian A. Herter, Massachusetts, Vice Chairman

|                                  |                                   |
|----------------------------------|-----------------------------------|
| Thomas A. Jenkins, Ohio          | E. E. Cox, Georgia                |
| Charles A. Wolverton, New Jersey | James P. Richards, South Carolina |
| August H. Andresen, Minnesota    | Francis E. Walter, Pennsylvania   |
| Francis Case, South Dakota       | Harold D. Cooley, North Carolina  |
| John C. Kunkel, Pennsylvania     | George H. Mahon, Texas            |
| John M. Vorys, Ohio              | Overton Brooks, Louisiana         |
| Charles W. Vursell, Illinois     | Eugene J. Keogh, New York         |
| W. Kingsland Macy, New York      | A.S. Mike Monroney, Oklahoma      |
| Richard M. Nixon, California     |                                   |

W. Y. Elliott, Staff Director  
Howard S. Piquet, Deputy Staff Director  
Philip H. Watts, Executive Officer

### SENIOR STAFF CONSULTANTS

Allen W. Dulles                      John M. Hancock                      Julius Klein

The group sailed for Europe with a small staff on August 28, carrying questionnaires that had been prepared with the State Department's assistance. They were intensely briefed during the crossing. Dividing into subcommittees which included some Senators, the members visited every nation in Europe except Russia, Yugoslavia, and Albania. Each subcommittee

traveled widely: one, on finance, went to twenty-two countries. In addition, Representatives Frances P. Bolton of Ohio and Chester E. Merrow of New Hampshire visited the Near East, and Congressman Walter H. Judd of Minnesota went to China, Japan, and Korea.

Soon after their return, the members reported to the Foreign Affairs Committee.\* Although these hearings, in November 1947, bore directly on interim aid, much of the testimony and discussion dealt with longer-range problems involved in the Marshall Plan. No major disagreements emerged in the testimony from members of the select committee - even among those who had been regarded as "isolationists" as well as among those looked upon as "internationalists". Unanimity was especially evident on one subject, the peril of Communist expansion. Mundt spoke of Communist "overlords" deliberately slowing down economic activity "so as to produce chaos and put an end to freedom". Herter cited the danger of disruption to production by Communist-controlled labor unions. Bolton of Ohio linked the cold war in Europe to America's future security, and John Davis Lodge of Connecticut saw in it a challenge to the democratic system and its moral and spiritual values.

Many members returned more deeply convinced of the necessity for American leadership and aid. "Whether we like it or not," said Peter Jarman of Alabama,

"this great country of ours....has grown....into a position of leadership and power in the world which places on the shoulders of our country a responsibility which heretofore had not rested there.....Practically all of Europe is in danger of losing its way of life....(Our) position of leadership demands action on our part.....Somebody, some member of Congress very aptly described the situation upon returning from Europe when he asked the question: 'What would it cost us not to aid Europe?'"

Everett M. Dirksen of Illinois saw three choices before the American people. One was to withdraw from Europe and be prepared to let the Kremlin take over. Another was to give "niggardly aid." He continued:

"There is a third choice, and that is the choice that we must make. I want to make it. I have been back home. People have talked to me about giving away my country, and I have talked to them.....And I have said, 'Look, let us examine this whole picture.' And it is amazing to me to see how the people back home have changed their minds on the basis of such facts as you disclose them. I am not afraid of the reaction in this country. I am confident that in proportion as we do our jobs as representatives to bring them the story--that they will go along with the third choice, and the third choice in my book is immediate--adequate--aggressive aid. My formula, Mr. Chairman, is very, very brief. Do it--do it now--and do it right."

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\*Emergency Foreign Aid Hearings before the Committee on Foreign Affairs, 80th Congress, 1st Session (1947).

Some misgivings were voiced. Smith said, for example: "We ought to do all we possibly can. But I raise the question--and it is a sincere one--can we expect from these nations any more in the future than we have in the past so long as we give and give and give?" Such doubts were partly offset by the belief shared by many of the committee that the people of Europe, by and large, were struggling to find a way through their problems.

The Congressmen recognized that miracles could not be expected and that a very short-term aid program would not put Europe on its feet. Herter said: "I do not want to get into a situation where Congress takes an interim bite and thinks everything is settled." Jacob K. Javits of New York referred to the need for giving "political assurance that we will stay in Europe." John M. Vorys of Ohio asserted that "unless this present interim aid is part of a cure, an installment on a long-term program, it is unjustified." Mundt expressed the view that "this emergency program, on which we are now working, can provide some experience tables which will be of value to us in considering a more comprehensive program, running over a longer period of time." On the other hand, the Congressmen repeatedly stressed the necessity for maximum self-help by European countries and maximum aid to their neighbors.

The following May, the Herter Committee submitted its formal report--an 883-page document--to the House of Representatives.

The report listed six basic elements which must be taken into account in formulating and administering any program of aid to fill the genuine needs of recipient countries, restore their economies as rapidly as possible, and at the same time assure that the economy of the United States is not subjected to undue strain:

1. The recipient countries should make vigorous efforts, individually and jointly, to increase the production of food and materials needed to meet not only their essential internal needs but the needs of other countries. Increased local production to assure decreasing deficits should be sought, so as to limit the requirements from abroad to a minimum consistent with a sound economic balance.

2. The recipient countries should, through mutual help and cooperation, facilitate the economic interchange of goods and services among themselves, provide effective distribution and use of their own resources, as well as of the resources received from our side, and work toward the elimination of exchange controls, quota restrictions, and other obstacles to trade.

3. Certain countries other than the United States which are in a position to supplement a program of aid, which have the same incentive as we to do so and which enjoy access to United States supplies, should be expected to cooperate each in relation to its respective capacity.

4. Every encouragement should be given and every facility extended to private initiative to assume, as conditions permit, the emergency activities which have devolved on governments in the present crisis.

5. The recipient countries should adopt fiscal, financial, and monetary programs designed to arrest inflation, to correct existing monetary weaknesses, to accomplish stabilization of exchanges, and generally to restore confidence in their currencies.

6. The recipient countries should give full and continuous publicity regarding the purpose, source, character, and amounts of aid furnished by the United States where this aid is not on the basis of commercial loans or normal commercial transactions.

The report went on to state that in order that any program of foreign aid from the United States may be efficiently administered, provision should be made for the effective coordination of existing government agencies participating in the program. Additional governmental machinery should be limited to that necessary to provide such coordination and to fill gaps of authority which may exist.

The committee found that Western Europe's most pressing needs, as in most other countries, fell into three categories:

1. Foodstuffs, fuel, and fertilizers;
2. Commodities to be processed and certain types of specialized equipment;
3. Capital goods and equipment.

To administer aid in the form of food, fuel, and fertilizer, the committee recommended that a corporation be established under Federal charter, to be known as the Emergency Foreign Reconstruction Authority. The corporation was to be authorized to enter into arrangements with countries in need of foreign aid under which food, fuel and fertilizer would be made available to them, and to determine the form of remuneration to be obtained on the basis of its best estimate of the recipient country's capacity to pay.

With respect to the purchase and delivery of articles falling within the second category, the committee recommended that the facilities of the Export-Import Bank be utilized and its resources and authority strengthened so as to enable it to act as the financing agency for these goods.

For the financing of the third category of urgent needs--capital goods and equipment necessary for longer-range programs--the committee felt that the International Bank for Reconstruction and Development should be used.

The committee recommended further that in order to assure effective coordination of the work of the various American and international agencies dealing with the problem, and the liquidation of existing governmental agencies whose functions could be performed by the new corporation, there should be established a coordinating council directly under the President, to be known as the Foreign Aid Council.

The Council would be composed of the Secretaries of State, Defense, Treasury, Agriculture, and Commerce, the Chairman of the Emergency Foreign Reconstruction Authority and the other members of the Board of this Authority, the Chairman of the Export-Import Bank, and the United States Executive Directors of the International Bank for Reconstruction and Development and of the International Monetary Fund. The Secretary of State would act as Chairman of the Council.

It was envisioned that the Foreign Aid Council would function primarily as an arm of the President, advising and consulting with him regarding the establishment by him within the limits of the new law, of over-all programs and policies, as well as the manner in which such programs and policies should be executed by the various participating agencies of the Government.

Some of the suggestions made by the committee--especially those on administration and distribution of aid--were not adopted. But on many subjects the committee and its staff made significant contributions to Congressional thinking and to the legislation which finally emerged. These included production and production management, utilization of resources, local currency "counterpart" funds, the relationship of Germany to European recovery, American participation and acquisition of strategic and other materials by the United States. The breadth and responsibility of Congressional interest in the European recovery program were perhaps nowhere more convincingly demonstrated than in the work of the Herter Committee. Through its firsthand reports and the influence of its individual members, its impact was unique in United States legislative history; it fixed attention upon realities in Europe and set the tone for the deliberations that followed. "Without it," asserted Paul G. Hoffman some years later, "the program couldn't have gotten Congressional approval. It was a bipartisan approach."

PART II

SELECTED STUDIES AND SURVEYS

ON FOREIGN AID UNDERTAKEN SINCE 1950

## The Bell Mission to the Philippines

At the request of the President of the Philippine Republic, President Truman appointed a U.S. Economic Survey Mission in July, 1950, to consider the economic and financial problems of that country and to recommend measures which would enable the Philippines to become and to remain self-supporting. Its terms of reference instructed the Mission to survey all aspects of the Philippine economy, including agriculture, industry, internal and external finances, domestic and foreign trade, and public administration. The Mission was asked to give special consideration to immediate measures to help raise production and living standards in the Philippines.

Headed by Daniel W. Bell, President of the American Security and Trust Company, the Mission was composed of the following:

|   |                            |
|---|----------------------------|
| Richard J. Marshall, Major General, U.S.A. Ret.,<br>Superintendent, Virginia Military Institute,<br>Lexington, Virginia | Deputy Chief of<br>Mission |
|---|----------------------------|

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|---|-----------------|
| Edward M. Bernstein,<br>Director of Research,<br>International Monetary Fund,<br>Washington, D.C. | Chief Economist |
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| August L. Strand,<br>President, Oregon State College,<br>Corvallis, Oregon | Agricultural Survey |
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| Francis McQuillin,<br>Assistant to the President,<br>West Penn Power Company,<br>Pittsburgh, Pennsylvania | Industry and Power |
|---|--------------------|

Assistance was also given by eighteen advisers who were specialists in fields of international payments, fiscal management, industrial engineering, labor problems, distribution and trade, agriculture, taxation, mining, banking, public relations, legal problems, etc.

In October, 1950, the Mission submitted to the President a 200-page report of its findings and recommendations. Recommendations called for steps to place the Government's finances on a sound basis to avoid further inflation; the raising of additional tax revenues and overhauling of the tax collecting machinery; improvements in agricultural production; steps to diversify the country's economy by encouraging new industries; a special

emergency tax of 25 percent on certain imports to prevent further deterioration of the international payments position; an adequate program of public health and improved education, as well as better facilities for urban housing; and improvements in public administration. The Mission also recommended:

"That the United States Government provide financial assistance of \$250 million through loans and grants, to help in carrying out a five-year program of economic development and technical assistance; that this aid be strictly conditioned on steps being taken by the Philippine Government to carry out the other recommendations outlined, including the immediate enactment of tax legislation and other urgent reforms; that expenditure of United States funds under this recommendation, including pesos derived from United States loans and grants, be subject to continued supervision and control of the Technical Mission; that the use of funds provided by the Philippine Government for economic and social development be co-ordinated with the expenditure of the United States funds made available for this purpose; and that an agreement be made for final settlement of outstanding financial claims between the United States and the Philippines, including funding of the Reconstruction Finance Corporation loan of \$60 million."

Mutual acceptance by both countries of the recommendations of the Bell report was formalized in an executive agreement known as the Quirino-Foster Agreement signed November 14, 1950, and in a subsequent economic and technical cooperation agreement which with its annexes spelled out more specifically the mutual commitments of the two governments and the precise steps to be taken to effectuate them.

The Bell Mission was regarded as one of the most successful surveys ever conducted along these lines. Technical guidance given the Philippine Government by Mission staff was instrumental in determining that Government's policy on agriculture, industrial development, taxation, and public administration, and recommendations of the group constituted what amounted to almost a blueprint for ECA planners in developing the Philippine program. Although U.S. aid in the Philippines has not reached the magnitude of the amount projected in the Bell report, the Philippine Government, for its part, particularly after the election of President Magsaysay, has undertaken a genuine and apparently largely successful effort to put into effect the reforms to which it had committed itself as its part of the Agreement.

REPORT TO THE PRESIDENT ON  
FOREIGN ECONOMIC POLICIES  
(The Gray Report)

by Gordon Gray

November 10, 1950

A report prepared pursuant to a request by the President on March 31, 1950, for recommendations on charting a course in the field of U.S. foreign economic policies and programs.

Report outlines in broad terms the complex problems the U.S. faces in the field of foreign economic policy, and offers recommendations for an approach to their solution. Recommendations are made on the following questions: (a) What should be done about aid to Western Europe and Japan? (b) What should be done about underdeveloped areas? (c) What should be done about the procurement and export of goods in short supply? (d) What should be done to promote our international trade and financial objectives? (e) How should our foreign economic programs be administered?

Recommendations on administration include: (1) initiation of assistance activities only when requested by other governments and when the latter are prepared to cooperate properly; (2) conditioning grants and loans upon agreement to reasonable standards of performance; (3) U.S. help in strengthening appropriate international and regional organizations; and (4) establishment of a U.S. agency to administer foreign economic programs, including all grant and technical assistance programs (except provision of military equipment) and other related activities such as the stimulation of needed materials production abroad.

PARTNERS IN PROGRESS  
(The Rockefeller Report)

A report to the President by the  
International Development Advisory Board

March, 1951

This report was prepared pursuant to a request to the Board by the President on November 24, 1950, to study the problems of the underdeveloped areas of the world and to make recommendations for U.S. action in dealing with such problems. The Board was asked to formulate its recommendations in the light of the Gray Report's analysis of our entire foreign economic policy.

The report recommends the centralization and unification of all major foreign economic activities of the U.S. into one over-all agency (a U.S. Overseas Economic Administration) headed by a single administrator who would report directly to the President, plan and operate the new agency on a regional basis, assume membership on the NSC and the NAC, and serve as an ex officio director of the Export-Import Bank.

Other recommendations include: (1) the use of joint commissions, consisting of representatives of the local country and the U.S., to work out a national development plan; (2) creation of regional institutes in the Middle East, Africa, South Asia, and Southeast Asia similar to the IIA; (3) provision for some measure of cooperative local financing in all U.S. assistance programs; (4) prompt creation of a new International Development Authority in which all free nations are invited to participate; (5) freeing of income from foreign sources from U.S. tax to the extent necessary to stimulate private investment in underdeveloped areas; (6) ExIm Bank underwriting of the transfer risk on new foreign debt obligations purchased by private U.S. investors; and (7) creation of an International Finance Corporation, as an affiliate of the International Bank, to make loans in local and foreign currencies to private enterprise without requiring government guaranties.

THE ADMINISTRATION OF FOREIGN AFFAIRS  
AND OVERSEAS OPERATIONS  
(The Brookings Report)

by The Brookings Institute

June, 1951

A report undertaken primarily to supplement certain portions of the work of the Hoover Commission, with the principal objective to prepare an analysis yielding conclusions that could be applied to certain phases of the general problem of organizing the Government for the conduct of foreign affairs and overseas operations.

The report poses the several questions which are inherent in the basic organizational dilemma of how the executive branch can best be organized for the conduct of foreign economic aid and related foreign economic activities; however, on the premise that questions regarding permanent organization cannot be wisely settled at this time in view of the uncertainties resulting from the defense emergency, and uncertainty as to how long the U.S. will continue to carry on large-scale programs of foreign economic aid, makes its recommendations on administration of foreign economic programs on the basis of short-range considerations.

Conclusions indicate that ECA should be continued as an emergency agency for administration of the economic aspects of foreign assistance and related activities as are of special importance during the emergency; statutory termination date should be removed; activities should embrace (a) economic aspects of MDAP; (b) technical assistance programs of TCA and IIAB; (c) procurement and development of strategic materials abroad; (d) export controls; and (e) the foreign claimancy function. Recommends that the State Department continue to be responsible for leadership in the formulation of foreign economic policy, and that foreign and domestic economic policy be co-ordinated under the leadership of the Executive Office of the President.

PROGRAM FOR INCREASING PRIVATE INVESTMENT  
IN FOREIGN COUNTRIES  
(The Maffry Report)

by August Maffry

December 18, 1952

A report prepared for TCA, Commerce, and MSA, outlining a program for increasing private investment in foreign countries. Based on the thesis that larger private investment abroad is necessary to strengthen the free world's political and economic status, the report advocates enlarging the flow of American capital to other nations through encouraging the purchase by Americans of stocks and bonds issued by foreign corporations, and proposes that the taxes on foreign investment income be reduced or eliminated.

Other recommendations call for the fixing of Government responsibility for promoting private investment abroad at some point in the Executive Branch in order to secure co-ordination of the activities of various agencies concerned with different phases of the problem; and increased contribution to the stimulation of private investment abroad by MSA and TCA by (a) improving the investment climates in foreign countries; (b) promoting the mobilization of local capital for productive investment; (c) assisting potential private investors to explore opportunities within specifically identified areas of private investment; and (d) continuing in underdeveloped countries programs of technical assistance in government administration, education, public health and sanitation, and agriculture, so as to lay a foundation for private investment.

## A TRADE AND TARIFF POLICY IN THE NATIONAL INTEREST

A Report to the President  
by the Public Advisory Board for Mutual Security

February 1953

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Daniel W. Bell, Acting Chairman  
President, American Security and Trust Company  
Sarah Gibson Blanding, President, Vassar College  
James B. Carey, Secretary-Treasurer, CIO  
Jonathan W. Daniels, Editor, Raleigh News and Observer  
Robert H. Hinckley, Vice President, ABC  
Eric A. Johnston, President, Motion Picture Association  
of America, Inc.  
Allan B. Kline, President, American Farm Bureau Federation  
Orin Lehman, 1 William Street, New York, New York  
A. E. Lyon, Executive Secretary, Railway Labor Executives  
Association  
George H. Mead, Chairman of the Board, The Mead Corporation,  
Dayton, Ohio  
George Meany, President, American Federation of Labor  
Herschel D. Newsom, Master, National Grange  
James G. Patton, President, National Farmers Union

David S. Brown, Secretary

Edward M. Bernstein, Staff Director

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This report, based on a six months' study of the role of trade and tariff policy in achieving United States national and international objectives, was transmitted to the President by the Public Advisory Board for Mutual Security on February 24, 1953. It contained the following recommendations:

1. That decisions on trade policy be based on national interest, rather than the interest of particular industries or groups; that in cases where choice must be made between injury to the national interest and hardship to an industry, the industry be helped to make adjustments by means other than excluding imports--such as through extension of unemployment insurance, assistance in retraining workers, diversification of production, and conversion to other lines.

2. That a new, simplified tariff act be adopted, providing for general reductions of duties and eliminating present uncertainties in the classification of goods by consolidating the many hundreds of present tariff rates into seven basic schedules: a Free List, 4 groupings of commodities bearing duties of 10, 20, 30, and 40 percent ad valorem, a Specific List for basic agricultural and mineral raw materials, and an Extraordinary List where commodities might be placed whose importation, for security or other reasons, should be limited by quotas or other restrictions, or by exceptionally high rates; that Congress establish appropriate standards for such an act and authorize the President to develop and carry out its details.

3. That the President be authorized to enter into reciprocal trade agreements without limit of time and with power to reduce tariffs, within specified limits, in return for reductions in tariffs or restrictions by other countries.

4. That, as an interim measure, customs procedures be simplified by prompt passage of a bill similar to that recommended by the Treasury and passed by the House of Representatives in 1951; that a commission be created to study and propose further measures of customs simplification.

5. That tariffs be reduced, and quotas on agricultural products be liberalized to allow the freer import of goods that are not produced in this country in sufficient quantity at world prices; that section 104 of the Defense Production Act, restricting the import of certain agricultural products, be repealed.

6. That tariffs be reduced and in some cases ultimately eliminated on metals and minerals of which imports are a major part of United States supplies; that, where necessary for defense reasons, domestic production be encouraged through special purchases or contracts rather than tariffs.

7. That import excise taxes now applying to petroleum products be dropped; that, if imports reach a level where they impede domestic exploration and development, other measures be taken to assure a domestic industry adequate to defense needs.

8. That cargo preference, by which 50 percent of the cargo on aid and loan shipments is reserved to domestic carriers, not be applied to countries that let American shippers compete on a fair basis.

9. That the procurement policies of the Government which raise the cost of goods bought by the Government be reconsidered in the light of the principles and objectives of a foreign trade policy in the national interest.

10. That the Congress take the necessary steps to enable the United States to join in establishing an international organization to promote the objectives of the General Agreement on Tariffs and Trade (GATT); that active participation be continued in other international organizations to promote fair exchange and fair labor practices and the flow of investment capital.

## ECONOMIC STRENGTH FOR THE FREE WORLD

A report to the Director for Mutual Security on principles for a United States foreign development program by the Advisory Committee on Underdeveloped Areas

May 1953

### Committee Members:

Edwin G. Arnold, Executive Associate, Ford Foundation  
C. W. de Kiewiet, President, University of Rochester  
Arthur B. Foye, Senior Partner, Haskins & Sells, International  
Public Accountants, and President, Far East-American Council  
of Commerce and Industry  
John W. Harriman, Dean of the Graduate School, Syracuse University  
Lester K. Little, Inspector General of Chinese Customs (Ret.)  
Edward S. Mason, Dean, Littauer School of Public Administration,  
Harvard University  
Stacy May, Economic Advisor on staff of Nelson A. Rockefeller and  
to the International Basic Economy Corporation, New York  
John E. Orchard, Professor of Economic Geography, Graduate School  
of Business, Columbia University, Chairman of the Committee  
Whitney H. Shepardson, President, National Committee for Free  
Europe; Formerly, Director, British Dominions and Colonies  
Fund, Carnegie Corporation of New York

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This report, which was prepared at the request of the Director for Mutual Security, analyzed the lessons learned in the operation of U. S. foreign development programs in less developed areas of the world since 1949, then examined the unanswered questions of policy and procedure and suggested certain principles as guidance in the future administration of the programs.

In a statement of United States objectives in the less developed areas and the means to attain them, the report lists ten points the first two of which are the most significant:

1. The objectives of the foreign development programs must be the same as the objectives of United States foreign policy generally (a) for a world at peace, and a free world strong enough to keep the peace; (b) for a world with increased personal freedom and respect for human dignity; (c) for a more prosperous world in which consumption and production are steadily increasing and international trade and investment are expanding.

2. Foreign development programs must serve these objectives
  - (a) by helping to build economic, political, social and psychological strength in the nations of the free world;
  - (b) by widening opportunities for individual self-realization and by increasing the ability of individuals to make the most of these opportunities; and
  - (c) by promoting increased production and consumption through more effective utilization and distribution of economic resources.

Part II of the report considers the desired direction of economic development in the less developed areas, and in this connection cites a series of questions on which policy should be established. The first three questions center upon the pressure in many of the underdeveloped areas for more industrialization and upon the growing realization in the more developed countries that increases in manufacturing capacity are tending to outrun production of primary materials in the free world. The Committee suggests it is important neither to encourage nor discourage industrialization as a general principle but rather to promote lines of development that will build real strength and bring about the most rapid increase of real income in the light of each area's resources and capabilities and the probable trend of world markets. The Committee believes it is probably sound general policy not to underwrite with government funds projects for direct production but to leave such financing to private capital. The fourth question cited is whether joint development programs should aim at improving living conditions, or at increasing the competence of groups expected to provide leadership in business, government and the professions. The fifth question concerns increasing population pressures. The sixth question is concerned with the financial burdens imposed on the underdeveloped areas by their defense establishments. And the seventh question emphasizes the importance of the underdeveloped areas as a significant element in the workability of the free world economy.

Part III treats with the financing of development, and recognizes five specific means of U. S. financing: grants for technical assistance, grants for mutual security, special purpose grants, investment of private funds and investment of public funds.

Part IV deals with the administration of development, and considers the question of bilateral vs. multilateral channels. The Committee concludes that although the greatest possible use should be made of multilateral channels, it is nevertheless clear that for some time to come a substantial part of the U. S. effort must be administered bilaterally. In any event, however, the Committee emphasizes the importance of maintaining a sense of permanence and continuity, and urges recognition of the fact that U. S. interest in the underdeveloped areas is not a short-run emergency policy but a continuing responsibility in today's interdependent world.

REPORT OF THE COMMISSION ON FOREIGN ECONOMIC POLICY

(The Randall Report)

CHAIRMAN: Clarence B. Randall  
President, Inland Steel Corporation  
Chicago, Illinois

Vice Chairman: Lamar Fleming, Jr. (D)  
Anderson and Clayton  
Houston, Texas

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Richard M. Simpson (R), Pennsylvania  
Laurie C. Battle (D), Alabama  
Jere Cooper (D), Tennessee

## SUMMARY

### REPORT OF THE COMMISSION ON FOREIGN ECONOMIC POLICY January 23, 1954

#### I. THE POSTWAR DOLLAR PROBLEM

Current improvement in world trade balance must be interpreted in the light of the recent favorable change for Western Europe in the terms of trade, the fact that potential demand for dollar goods and services could substantially exceed the present demand under free market conditions, that any contraction in U.S. national income has a multiplied effect in reducing imports, and the fact that large "extraordinary" dollar expenditures are still being made by the U.S. in other countries.

Much remains to be done to achieve a dependable international balance, and the problem must be attacked on many fronts. The final solution will probably depend even more upon the efforts of other countries than our own. It will involve their continuing internal efforts to achieve strong and sound economies and their external efforts to correct their international imbalance.

#### II. FOREIGN AID AND TECHNICAL ASSISTANCE

##### 1. Economic and Military Aid

Economic aid on a grant basis should be terminated as soon as possible. Items entering military programs should be scrutinized with utmost care to minimize being borne by the American people. Consideration should also be given to the economic implications of military programs, especially the dollar cost of replacement and maintenance. "Defense Support" is a form of economic aid and should be so denominated.

Offshore procurement should not be used as a form of general economic aid. Contracts should be placed on considerations of cost, availability and quality, or on strategic judgments concerning the military production base.

Support to military programs should be in the form of grants; in cases where substantial economic aid is necessary in the U.S. interest but cannot be obtained from private or international sources, loans should be made, not grants.

DISSENT: Mr. Byrd and Mr. George — aid is not a sound alternative to trade and should not be continued as an expedient for maintaining balance in international accounts. Mr. McDonald -- Some grant economic aid may be desirable, particularly where it may contribute to political stability.

## 2. Technical Assistance

Technical Cooperation program should be pressed forward vigorously, within the limits imposed by appropriations, the need for selecting only sound projects, the availability of trained technicians, and good administration. It should not become a big money program nor involve capital investments.

Some expansion of the UN technical assistance program would be desirable, but the U.S. percentage share in its cost should be reduced.

Foreign aid should not become an instrument of coercion, and the fixing of conditions on aid should be limited by this principle.

DISSENT: Mr. McDonald — Favors larger Point IV appropriations.

## III. PROGRESS AND RESPONSIBILITY

The time seems ripe for obtaining the benefits of swelling international commerce, but to achieve this growth the free world must remove the impediments which still exist to movement of goods, capital and currencies. The U.S. must exercise wise leadership, but our actions must be matched by comparable efforts on the part of other nations of the free world.

## IV. U. S. FOREIGN INVESTMENT

### 1. Conditions Conducive to Investment Abroad

The U.S. Government should give full diplomatic support to the acceptance abroad of principles underlying the creation of a favorable investment climate, and continue to use the treaty approach to establish common rules on the fair treatment of foreign investment.

The U.S. can also remove uncertainties in its own policies by (a) restating U.S. antitrust policies to acknowledge the right of each country to regulate trade within its borders; at the same

time it should be made clear that foreign laws or practices which encourage restrictive arrangements will limit the willingness of U.S. businessmen to invest abroad and (b) making clear that public financing will not be a substitute for private investment.

## 2. U.S. Taxation

Specific proposals are submitted for providing preferential tax treatment to corporate and private investors abroad, permitting foreign taxes to be offset in full against domestic tax, rate reductions in taxes on foreign income, removal of restrictions on foreign tax credits, and allowing investors the option of treating investments either as branches or subsidiaries for tax purposes.

The Commission rejected a proposal for rapid amortization on foreign investments.

## 3. Guaranties

The program of guaranties against expropriation or inconvertibility should be given a further period of trial and during this period guaranty coverage on a discretionary basis should be authorized for risks of war, revolution and insurrection.

## 4. Public Lending

Loans by Eximbank and IBRD to finance basic facilities are often a necessary condition for increased private investment. Wherever possible, such loans should be made to private enterprise abroad. Public lending should not compete with, or displace private foreign investment.

Eximbank should continue to make loans which are in the special interest of the U.S., but its own funds should not be used for loans which do not meet reasonable standards of bankability. In cases where there is an urgent political need for such loans, special funds should be authorized.

## 5. Foreign Investment and Economic Stability

Any sharp decline in the total flow of investment abroad would create severe problems of adjustment in American export industries and in the development programs of other nations of the free world.

DISSENT: Mr. McDonald -- The proposed special concessions to foreign investors are in the national interest, but should be recognized as in the nature of subsidies. The

subsidy route should also be used to ease adjustments of workers, employers and communities to effective tariff reduction. Also, it should be admitted with more forthrightness that there may be cases where public foreign investment is amply justified. Foreign investment is a relatively short-term solution to the problem of dollar imbalance, and its virtue is that of affording additional time in which to make the inevitable accommodation to increased commodity imports.

## V. PROBLEMS OF AGRICULTURE AND RAW MATERIALS

It would be unrealistic to expect the total volume of our farm products exports to continue at the level attained during the period of postwar reconstruction but it is important to take such steps as can be taken to maximize a continuing flow of U.S. farm products into world markets.

### 1. Conflicts between Farm Policies and Enlargement of International Trade

The International Wheat Agreement has contributed little to the solution of our own or the world's wheat problems, and its termination in 1956 should be considered.

The levels of import restrictions on farm products should be set with full regard for the effects on the overseas buying power and the possibility that such restrictions may lead to retaliation and may be self-defeating.

Ways of achieving desirable farm policy goals can be found without resort to the kind of inflexible price supports or fixed prices which hold the prices of our farm products above the level of world prices. This subject, however, is outside the field of inquiry of this Commission.

A dynamic foreign economic policy as it relates to agriculture cannot be built out of a maze of restrictive devices such as inflexible price-support programs which result in fixed prices, open or concealed export subsidies, import quotas at home and abroad, excessive use of tariffs here and abroad, exchange restrictions, and state trading. If we are to have a foreign economic policy which will make its best contribution to the strengthening of our long-term development of foreign markets for farmers, we must move as rapidly as feasible toward the elimination of such devices as a part of, or supplement to, our own agricultural policy.

STATEMENTS: Mr. Hickenlooper - Agrees with recommendations, but emphasizes he does not favor elimination of government farm price supports.

Mr. Cooper -- Our domestic agricultural programs should not be subordinated to our foreign trade policy without full and careful consideration, with proper emphasis being given to our domestic farm economy and its impact on our overall national economy.

DISSENT: Mr. McDonald -- Burdensome accumulation of surpluses and high domestic prices will not be resolved by abandoning the Federal Government's responsibility to maintain a sound stabilized farm program.

## 2. Instability of Raw Materials Prices

Extensive resort to commodity agreements will not solve the problem of price instability; and such agreements introduce rigidities and restraints that impair the elasticity of economic adjustment and the freedom of individual initiative. The same objections apply to proposals for unilateral buffer stock action by the US to stabilize world prices of raw materials and foodstuffs.

Constructive contributions the US can make toward greater stability of world prices are (1) relaxation of impediments to foreign trade; (2) encouragement of diversification of the economies of raw materials producing countries (3) avoiding actions incidental to our commodity control and stockpile programs that would have avoidably disruptive effects on world prices; (4) continued consultation and cooperation with other countries to improve knowledge of world supply and demand for materials and foodstuffs, and to explore possible means of lessening instability and (5) adoption of policies which will temper the fluctuations of our domestic economy.

STATEMENT: Mr. Whitney -- International commodity agreements that embody flexible price policies and take account of longterm trends in world demand and supply may provide a means of protection from drastic price movements.

DISSENT: Mr. McDonald -- Report greatly oversimplifies problems. In addition to measures recommended, U.S. may find it appropriate to join in carefully negotiated international agreements to reduce fluctuations in incomes of raw materials producers.

Mr. George -- The Commission fails to point out any constructive substitute for the present agricultural program and contents itself with criticism of restrictive devices in the existing program.

## VI. U.S. DEPENDENCE ON IMPORTED RAW MATERIALS

The most effective contribution the U.S. Government can make to the development of foreign sources of raw materials in which we and the free nations are deficient is to follow policies favorable to private investment abroad, and to advocate among nations adherence to principles and practices hospitable to foreign investors and conducive to thrift and investment by their own nationals. Investors in the development of sources of needed materials must be assured against frustration of their ventures by unpredictable or capricious levies on exports or production by the countries of origin. Also our tariff policy toward the needed materials should be such as to offer them reasonably easy access to the U.S. market.

Tariffs or other import restrictions on raw materials should be determined on economic grounds. Protection of domestic supply sources on security grounds should be accomplished by other means, the cost of which should be borne by the defense budget.

STATEMENTS: Mr. Bush and Mr. Vorys -- Domestic defense production industries, as well as suppliers of raw materials, should be protected on security grounds. Tariff protection may be necessary.

Mr. Fleming -- Agree with Bush and Vorys, but determinations for aid to production facilities should be made at a very high level in the Administration, and should be done by direct means, rather than tariff protection.

Mr. Hickenlooper - I must disassociate myself from the above recommendation for the reason that I have been unable to satisfy myself as to its implications and it might lend itself to a variety of interpretations with which I could not agree. We should approach with great caution any policy which might result in the substantial disruption of established segments of our economy affecting both industry and labor.

## VII. TARIFFS AND TRADE POLICY

Buy American Act should be amended to permit the President to exempt from its provisions bidders from other nations that accord equal treatment to U.S. bidders.

The Commission presents specific proposals for studies and action leading to (a) simplification of commodity definitions and rate structures; (b) simplification of classification of articles not enumerated in tariff schedules; (c) passage of HR 6584 to amend and improve customs valuations; (d) greater use of actual invoice

price on imported goods for valuation purposes; (e) more effective use of the "anti-dumping" law; (f) more efficient customs administration; and (g) protection of American industry from injury by embargoes or other impediments to exports of raw materials to the U.S. for use in processing here.

Our policy of nondiscrimination in trade matters, as reflected in our unconditional most-favored nation policy should not be changed.

The organizational provisions of GATT should be renegotiated with a view to confining the functions of the contracting parties to sponsoring multilateral trade negotiations, recommending broad trade policies for consideration by the countries, and providing a forum for consultation regarding trade disputes. They should then be submitted to Congress for approval.

The President's power to negotiate trade agreements under Trade Agreements Act should be extended for not less than three years with appropriate safeguards. Consideration should then be given to extending the Trade Agreements Act for a longer period than three years, with such safeguards as experience then indicates to be necessary. The President should be delegated broad powers under the Trade Agreements Act to enter into multilateral negotiations looking toward a reduction of tariff rates on a gradual basis. He should be authorized for three years to reduce tariff rates to the following extent:

a. Pursuant to multilateral trade agreement negotiation, by not more than 5% in each of the first three years.

b. On the basis of information provided by the Tariff Commission, with or without reciprocal concessions, by not more than one half of Jan. 1, 1945 rates on products which are not being imported or which are being imported in negligible volume. Any such reductions should be made in steps spread over a period of three years.

c. 50% ad valorem, or its equivalent, any rate in excess of that ceiling, except that any such reduction should take place by stages over a period of three years.

d. Reductions in rates pursuant to the foregoing should not be cumulative as to any commodity.

e. In exercising these powers, the existing pre-negotiation procedures should be followed and peril point determinations should be made. Moreover, the provisions of the escape clause should apply to tariff reductions made under this authority.

The escape clause and the peril point provisions should be retained, but the statute should be amended to spell out the fact that the President is authorized to disregard findings under these provisions whenever he finds that the national interest requires it.

The same standards of sanitation and health should be applied to imported as to domestic goods. The desirability of consulting with other countries, with a view to creating greater understanding abroad of the standards being enforced by the U.S., should be studied.

STATEMENTS: Mr. McDonald -- Buy American Act should be repealed. Adequate provision should be made in the law for sharing the costs of such adjustments as may be necessitated by increased imports.

#### VIII. ADJUSTMENT TO INCREASED IMPORTS

Mr. McDonald submitted a proposal for Government assistance to employers, communities and workers to facilitate adjustment in case injury should be caused by tariff changes. The Commission decided it could not recommend the proposal for the reason that this is but one phase of a much broader problem. In a free economy, some displacement of workers and some injury to institutions is unavoidable. Since it has never been seriously proposed that the burden of all such injury should be assumed by the Government, the Commission felt that it was not appropriate to propose such a plan in the tariff area only.

The Commission felt, however, that Mr. McDonald's proposal should be presented to the public, and it is included in the Commission's report.

Under the McDonald proposal, when the President found it in the national interest to lower a tariff below the peril point or to maintain a tariff concession despite a finding of injury or threat of injury by the Tariff Commission, the affected companies, their employees, and the communities in which they are located should become eligible for the following types of assistance: (a) technical assistance to companies and communities; (b) financial assistance to companies and communities for adjustment programs; (c) tax amortization for companies on new plant and equipment; (d) special consideration to companies and communities in the letting of Government contracts; (e) special employment compensation for employees; (f) an adequate adjustment program for employees, including counseling and placement, special training allowances, special moving allowances, and early retirement benefits for older workers who prove unemployable.

In addition, the McDonald proposal recommends a privately-sponsored program to get export industries to place new plants in areas with present or prospective labor surpluses, and further

research on the impact of lower tariffs and increased imports on American workers, companies and communities.

STATEMENTS: Statements were submitted by Mr. Parker, Mr. Bush, Mr. Vorys, Mr. Whitney, Mr. Williams, Mr. Tapp concerning the McDonald proposal.

#### IX. LABOR STANDARDS IN INTERNATIONAL COMPETITION

American labor should not be subjected to unfair competition as a part of any program to expand our foreign trade, but neither low wages nor low unit labor costs, in and of themselves, constitute "unfair competition."

Our negotiators should make clear that no tariff concessions will be granted on products made by workers receiving wages which are substandard in the exporting country.

The U.S. should also attempt to raise labor standards throughout the world through consultative procedures and cooperation in international conferences such as those sponsored by the ILO.

STATEMENTS: Mr. McDonald -- A principal objective of the suggested ILO conferences should be the formulation of a Code of Fair Labor Standards, which should include the right of workers to organize into free trade unions and engage in free collective bargaining.

Mr. Bush and Mr. Vorys -- In negotiating trade agreements, our negotiators should consider not only substandard and depressed wage levels, but also wage differentials, in order to protect American labor.

Mr. Rickenlooper -- Supports the use of our good offices to increase wage and living standards in other countries, but questions the effect of action which might be considered as arbitrary or coercive.

#### X. RELATED PROBLEMS OF TRADE ADJUSTMENT

##### 1. East West Trade

So far as it can be done without jeopardizing military security, and subject to the embargo on Communist China and North Korea, the U.S. should acquiesce in more trade in peaceful goods between Western Europe and the Soviet Bloc.

STATEMENTS: Messrs. Parker, Whitney, Bush and Vorys -- Concur in recommendation.

Mr. George and Mr. Byrd — Treasury should study Russian gold sales to ascertain whether they are fostering illicit trade.

DISSENT: Mr. McDonald — Distinctions between strategic and non-strategic trade are unrealistic. U.S. should lower tariff barriers to permit shifts in European trade from Soviet Bloc to U.S.

## 2. Merchant Marine Policy

Determination of active U.S. merchant fleet requirements under the Merchant Marine Shipping Act should take account of the availability of foreign vessels and of the importance to the balance of payments of foreign maritime nations of their dollar earnings from shipping services. 50% shipping requirement on aid shipments should be repealed and support to merchant marine provided by direct means.

STATEMENTS: Mr. Tapp, Mr. Whitney, and Mr. Boyd — Concur, but statement should not be interpreted to mean that we should place less reliance on maintenance of a strong merchant marine than authorized by the Merchant Marine Shipping Act of 1936.

DISSENT: Mr. McDonald — In determining merchant fleet requirements, we should not put substantial reliance on the merchant ships of our allies. 50% shipping clause should not be repealed.

## 3. Tourism

Tourism should be encouraged by considering means of facilitating issuance of passports and visas, cooperating with foreign governments to insure ease of entry and adequacy of accommodation for travelers, and an increase in the duty-free allowance for tourists.

## XI. CURRENCY CONVERTIBILITY

Responsibility for introducing currency convertibility should rest on countries concerned, but the Commission's overall recommendations for U.S. actions would encourage and assist foreign countries in removing restrictions on trade and payments. The Commission would deplore a merely formal convertibility maintained through trade restrictions; removal of restrictions on payments and trade should go hand in hand. The Commission favors gradual but positive progress toward currency convertibility. For the purpose of a gradual and controlled approach to full convertibility, adequate reserves could be found through a much more active utilization

of IMF's holdings of gold and convertible currencies. As a second means of strengthening foreign reserves and providing foreign exchange support operations to assist in the gradual attainment of general convertibility, the Commission recommends that the Federal Reserve System explore with foreign central banks the possibilities of standby credits or line of credit arrangements.

## STATEMENT BY MR. MILLIKIN ON THE REPORT

Senator Eugene Millikin submitted his comments on the Report separately in a letter to Chairman Randall. His major comments, which follow the outline of the Report itself, follow.

Foreign Aid and Technical Assistance: I fully agree with the general proposition that economic aid should be terminated, but believe room should be left for permissible exceptions for serving clearly demonstrable security requirements of the U.S. Point IV assistance has not realized some of its great constructive possibilities because of departures from the intended objectives of the program and over-hasty project selection. The program should be kept simple, be realizable within a reasonable period of time, be acceptable to the beneficiaries, and be modest in cost.

U.S. Foreign Investments: Careful consideration should be given to all the implications of altering taxation of income from investments abroad in terms of losses of revenue, equity issues involved in tax favoritism, the advisability of subsidies, and the relative positions of the local investor and his U.S. competitor in the foreign country. May not assured freedom to convert investment or income funds achieve the same purposes?

Problems of Agriculture and Raw Materials: Our domestic programs in aid of agriculture must not be subordinated to considerations of foreign policy.

U.S. Dependence Upon Foreign Materials: In my opinion the development of self-sufficiency, so far as strategic and critical materials are concerned, is of first importance. The notion that we can conserve our domestic materials for emergency use while increasing our dependence upon foreign sources is fallacious. I suggest that the best protection is a growing domestic industry which can supply required wartime needs with minimum foreign dependence or excessive stockpiling.

Tariffs and Trade Policies: I believe more study should be given to the Buy American Act before it is repealed or altered. I am heartily in favor of making a study of tariff classifications and simplifying them, but under clear standards prescribed by the Congress. Any proposal for change in tariff regulations should take into account the fact that domestic businesses have made plans based on the present arrangements. Tariff reduction action should not be taken without reciprocal considerations, since such action simply reduces our bargaining base.

Adjustment to Increased Imports: I am opposed to the proposal that the Federal Government should give assistance to communities, employers and workers who have been injured by tariff changes, for such action is a infringement on human dignity and our conception of individual freedom.

Labor Standards in International Competition: The point is to safeguard our own wage scales and our own standards of living by requiring fair competition between the competing articles in our markets.

Related Problems of Trade Adjustment: I am not prepared to agree that the U.S. acquiesce in more trade in peaceful goods between Western Europe and the Soviet bloc until I am more fully satisfied that in making such exchanges we are not strengthening potential aggressors against internal unrest. Regarding Merchant Marine policies, I agree in the main with Mr. McDonald. Congressmen Reed and Simpson, in addition to filing a joint statement of general dissent, submitted a more detailed statement, the major points of which follow:

"We feel that the Report, as a whole, contributes little to a solution of the over-all problems which this country faces with respect to its foreign economic policy. It adds nothing to the views of the members of the Commission previously published and well known before their selection."

Specifically:

1. The time for preparation of the material was too short, and all that was available was not used.
2. The Report fails to recognize that the welfare of the free world is dependent upon a healthy economy and a strong defense structure in this country.
3. The various protests submitted to the Commission by industry on the effects of "trade liberalization" have been largely ignored, including chemicals, textiles, electrical goods, coal and petroleum.
4. Assistance to communities, industries, and individuals by means of subsidies is no substitute for jobs. Nor is it needed for our industries which under tariffs levied to prevent unfair competition have given the U.S. the best balanced and most productive society in all history.

5. The proposals aggravate an already desperate situation regarding the costs of government in the U.S.

6. In spite of statements to the contrary, the Report really draws its basic concepts from economic conditions which have now ceased to exist in the nations of the free world. "Recent official statements by the Foreign Operations Administration declare, without qualification, that the nations of the free world in 1953 enjoyed the best economic year in their entire history. They affirm that all foreign economic aid, with minor exceptions, may now be eliminated. They held that the free world outside of the U.S. is moving forward. It has enjoyed its highest personal income; it has been better fed and better clothed than ever before; it has had its lowest unemployment and its greatest profits; and finally, it has achieved control of inflation. In spite of all this, the Report advocates sacrifices by the U.S. -- sacrifices which admittedly will create unemployment and adversely affect businesses in this country. Yet the only remedy offered is the alternative of subsidy or sympathy."

7. The recommendations all involve sacrifice by Americans. There are no constructive recommendations for actions which will expand world trade to the benefit of all countries.

8. We expect to submit to the Commission alternative recommendations before March 6, 1954.

PRESS RELEASE ON THE HOOVER COMMISSION REPORT  
ON OVERSEAS ECONOMIC ACTIVITIES

1955

Washington, June 5 -- Despite mistakes and waste, foreign aid, which has cost American taxpayers more than \$50,000,000,000 since the end of World War II, should be continued, but not in countries which no longer need economic assistance, and should be reorganized and economically administered, "with the primary purpose of strengthening the security of the United States." This is the view of the Commission on Organization of the Executive Branch of the Government as expressed in its Report on Overseas Economic Operations which will be submitted to the Congress tomorrow.

"here are great problems of economic and humanitarian advancement in many countries, in the solution of which," the Hoover Commission says, "the United States should take part." But, it adds, the time has come when the increased economic strength of certain nations makes extensive support from us no longer necessary. The Commission cites President Eisenhower's statement that inasmuch as the European countries originally members of the North Atlantic Treaty Organization have reached the greatest industrial productivity of their history no further economic aid need be given to them.

These countries, the Commission points out, will continue to benefit by a "possible \$1,000,000,000 annually" from the Military Assistance program, off-shore procurement, the support of the North Atlantic Treaty Organization and the maintenance of our troops in Europe.

Seven of the twelve members of the Commission in a separate statement said that "surely, after almost ten years, the time has come to apply some brakes to this overseas spending program." The signers are Senators John L. McClellan and Styles Bridges, Representative Clarence J. Brown, Solomon C. Hollister, Joseph P. Kennedy, Sidney A. Mitchell and Robert G. Storey. Pointing out that "there is presently available approximately \$8,000,000,000 in unexpended appropriations from previous years," they advocated "substantial reductions" in foreign aid. "By no other means," they said, "will the growing trend toward permanent foreign spending be halted."

James A. Farley later expressed "basic agreement" with the statement by these seven Commissioners. At the same time, he disapproved the recommendation for complete elimination of technical assistance to the original North Atlantic Treaty Organization countries on the ground that "a situation might very well arise" where such assistance would be helpful.

Representative Chet Holifield presented a dissent and separate statement with respect to various aspects of the Commission's report.

Four Commissioners were absent from the meeting that adopted the report, and some Commissioners felt that in the absence of a detailed schedule of specific reductions in the country programs their opinion that reductions should be made would be more appropriately set forth in a separate statement rather than in the report proper.

The decision of the Congress to abolish the Foreign Operations Administration as of June 30 next, provides the opportunity, the Commission asserts, for an overhauling of foreign aid methods. There are methods of organization, it asserts, which would reduce cost by eliminating duplication and by creating greater efficiency in operation.

There are 32 agencies in the Federal Government directly or indirectly engaged in or related to foreign aid, the Commission found. "Apart from American military personnel," it says, "a total of 115,250 persons were employed by the United States for work abroad, of whom 30,681 were Americans and 84,569 were of other nationalities. Of this number, some 20,000 American workers and 74,000 citizens of other countries were retained by our Defense establishment. The work of citizens of other countries and payment to them in dollars materially aids the economy of the country in which they are stationed."

Military and economic aid to foreign countries from 1946 through the fiscal year 1954 amounted to \$46,847,000,000, of which \$12,181,000,000 was in military grants, \$23,661,000,000 in grants for economic and other purposes and \$11,005,000,000 in loans or credits for economic and other aid. In addition the Budget indicates that \$4,300,000,000 is expected to have been spent in fiscal 1955, ending next June 30, and an outlay of \$4,700,000,000 is forecast for fiscal 1956. The \$46,847,000,000 represents actual expenditures and does not include commitments.

The Commission's Task Force, headed by Henning W. Prentis, Jr., Chairman of the Board of the Armstrong Cork Company, which studied the foreign aid problem at length, has estimated that there will be an unexpended balance of about \$7,900,000,000 when the Foreign Operations Administration passes out of existence on June 30 next. In addition, there was available as of December 31, 1954, in foreign currencies, the equivalent of \$973,000,000 in counterpart funds, some of which will remain as of June 30. The proposed appropriations for fiscal 1956 are \$3,500,000,000.

"The total sum available for the fiscal year 1956 would, therefore, be about \$12,300,000,000," the Hoover Commission says. "Considerable of these funds are committed in contracts for the purchase of arms, for foreign assistance and offshore procurement. Others are committed for industrial projects under construction and to universities for technical assistance, etc.

"We suggest that the appropriate Congressional Committees ascertain how much of the unexpended funds are committed by definite contractual obligations as of June 30, 1955, and whether these unexpended appropriations do not permit a substantial reduction of cash appropriations for the fiscal year 1956."

"We believe," the Commission says, "there can be important savings in administration by the organization and principles of action proposed here and at the same time our foreign aid made more effective."

"This investigation in the field of Mutual Security was undertaken," it further points out, "in response to the special wish of certain Congressional members of the Commission."

"A new method of organization must be found," the Commission asserts, "which will continue certain essential services, simplify others and reduce Government expenditures. At the same time we seek to provide a program which will strengthen the countries of the Free World militarily and economically, thereby sustaining the security of the United States and making available to the underdeveloped countries of the world the benefits of the technological advances enjoyed by the people of the United States."

"We realize," the Commission says, "that some of the money spent on this program in the past has been spent unwisely and that in some cases the taxpayers have not received full value for their money. We believe that the recommendations for eliminating the duplication of staffs and overlapping programs, together with adherence to the basic principles contained in this report which should govern the conduct of our mutual security program, will result in substantial savings in the amount of money required to meet our needs in making the Free World strong".

The Commission draws attention to its Task Force's estimate that if its recommendations are adopted at least \$360,000,000 annually could be saved "without prejudice to the objectives of these programs".

The President, by Executive Order of May 8, transferred the Direct Military Assistance functions entirely to the Department of Defense, and the Commission points out that "there are some other functions of direct military aid character which should be analyzed to determine if they should not also be delegated" to this Department.

After enumerating the various steps by which the President has proposed that the International Cooperation Administration shall replace the Foreign Operations Administration in the foreign aid field, the Commission recommends further methods which it "believes would be constructive in such reorganization."

The number one recommendation of the Commission is:

That the Secretary of State, through the Director of the International Cooperation Administration, maintain strong control of the function of developing policies and objectives governing non-military foreign aid programs; and wherever advantageous and economical to do so, he make full use of the staffs and facilities of the various departments and agencies of Government on a reimbursable basis to perform activities in connection with these programs. At the same time, he should inspect operations to insure complete adherence to the policies and objectives as defined by him.

That the Director of the International Cooperation Administration should be responsible for the preparation of the budget and the accountability of all funds for non-military foreign aid programs which should be appropriated to and expended by the Department of State, and should report to the Congress the expenditures made.

That the different agencies in many cases will be able to discharge their duties from their present staffs, but if they should require additional staff, they should be free to obtain it from any quarter.

That the overseas non-military personnel of United States agencies be subject to the line authority and direction of the United States Chief of Diplomatic Mission in each country.

The condition prompting the section of the recommendation relating to personnel is discussed by the Commission, which points out that the departments to which foreign aid duties would be delegated already have staffs abroad. "Various departments and agencies, such as the Foreign Operations Administration, United States Information Agency and

Department of Agriculture," the Commission says, "send personnel overseas under personnel systems outside of the regular Foreign Service, assigned to field missions operated independently of the embassies, and headed by high ranking officers not subject to the line authority or direction of the U. S. Chief of Diplomatic Mission in each country.

"As a consequence, the United States frequently speaks with numerous, often conflicting voices; its representatives can be played off one against the other by foreign officials, and its manifold policies and programs can be misconstrued. Remedial measures in the interest of efficiency and economy and to strengthen the position of our Chief of Diplomatic Mission in each country should provide for the assignment of overseas personnel of all United States agencies (except the military) under a single unified foreign service system, and for the coordination of all separate field missions and overseas personnel of these agencies into the regular organizational units of the embassy, subject to the authority and control of the Ambassador or Minister."

The Commission, while convinced that economic assistance must be continued to "certain free countries of the world in order to secure the maximum military security for ourselves and to take our part in the advance of the living standards of the free world," asserts that this does not mean "that the taxpayer's money should be spent without regard to receiving full value for the money spent." The Commission urges certain principles in the conduct of foreign economic aid which, it says, "would bring both more effectiveness and a substantial reduction of expenditures."

The Commission lays down the following broad principles as guides to foreign aid programs:

"Industrial projects should not be undertaken in countries which do not already have an industrial background. In these countries there is little local capital available for participation and the vast background of transport, marketing, technical and executive skills is lacking. Large industrial projects cannot succeed against this background and in any event cannot affect the standard of living for many years to come. Such projects are not the answer to unemployment. American industrial experience shows that in large manufacturing the

capital investment of \$100,000,000, or even more, is required to provide 10,000 jobs.

"In the 'Asian-African Arc,' with the possible exception of Japan, no manufacturing or large industrial development projects should be undertaken and industrial aid should be confined to small industries.

"A recent report of the United Nations states as to industrially undeveloped countries:

"There are numerous examples of countries embarking upon ambitious projects on the basis of no more than the general desire to industrialize and with astonishingly inadequate information concerning all the relevant technical, social, and economic data upon which success of the project so greatly depends."

"The most valuable contribution to world economic stability can be made by improvement of small manufacturing industries in non-industrialized countries.

"The fundamental need of many of the countries in the 'Asian-African arc' is increased food supplies. Therefore, sound irrigation projects and the introduction of improved agricultural methods are justification for United States aid programs.

"The financing of foreign development projects by the United States has been in four forms: (a) loans to Governments; (b) loans to private industries; (c) grants or contributions to Governments or private development projects; and (d) grants and loans to international organizations.

"The Mutual Security Act of 1954 provided that foreign aid should be extended more largely in the form of loans and that the Export-Import Bank should make and administer such loans upon the direction by the Foreign Operations Administration.

Making loans to countries to support their defense, which they cannot repay, only creates future difficulties and misleads the American taxpayers, as they are not a recoverable asset. Where there is no prospect of repayment, outright grants should be made, and they can be better controlled."

The Commission submits a separate recommendation regarding the functions of the Export-Import Bank in foreign aid. "This bank," it points out, "now investigates and negotiates loans to foreign governments and foreign enterprises for development of industrial and

natural resources on its own responsibility. It has made loans as fiscal agent for the Foreign Operations Administration. It has effective and experienced staff for such purposes. This Bank is also in a position best to cooperate with the International Bank for Reconstruction and Development to the relief of much of this burden upon the United States. It also is in a position to review properly all proposed loans for economic aid to determine whether or not the proposed projects are susceptible of private investment--in other words, whether they are bankable projects."

"All loans, where there is assurance of repayment for industrial and natural resource development, whether to private institutions or governments," should, the Commission says, "be negotiated and managed by the Export-Import Bank." The Commission also proposes that the Investment Guarantee Program, under which the Foreign Operations Administration, subject to certain conditions, guarantees the investments of Americans in new enterprises abroad or in the expansion, modernization and development of existing enterprises, be delegated to the Export-Import Bank.

The Commission found that the "original relatively modest concepts of the Point IV programs of technical cooperation have been enormously expanded." The activities now cover not only "imparting American industrial training," the Commission says, "but also furnishing professors to universities, bringing large numbers of persons to the United States for industrial and professional training (often short-term visitors), labor relations, agriculture, commerce, trade, public administration, even including aid to so highly developed a nation as The Netherlands in 'social psychology' and 'human relations practice.'"

"This service is not only over-expanded, but duplicates possible services in this field by other Departments of the Government. Its organizational concept needs complete reorganization. It is divided into a multitude of projects (probably more than 2,000) and is spread over more than 55 countries and overseas territories.

"Practically all nations have effective universities and colleges turning out trained technicians. Real technical advancement in backward countries should be built upon their own technicians whose lives will be spent in these countries. In order to do this, technical assistance in all countries should be built by creating (where requested and needed) technical units of native personnel for the development of each field of health, agriculture and industrial advancement on a nationwide basis to which the United States should contribute American personnel and financial aid. These contributions should be in diminishing amounts annually."

MANSFIELD RECOMMENDATIONS ON AID PROGRAM IN INDOCHINA

October 6, 1955

In a report released to the public on October 6, 1955, Sen. Mansfield (D-Mont., Chairman of the Foreign Relations Subcommittee on Technical Assistance Programs) discussed events since his visit to the Associated States in 1954 and called for a careful review of the extent and nature of our assistance programs in those countries.

Viet Nam: Sen. Mansfield noted that, for the first time, there now exists in the Diem government a genuine alternative to the authorization regime of Ho Chi Minh. He said that, in constructing a free nation, the Diem regime must among other things reduce reliance on foreign aid as rapidly as possible by vigorous measures of self-help. Generally supporting United States policies over the past year, he concluded that the only major readjustment may be the desirability of conducting a general review of our aid program there.

...The program, until now, has been conducted on an urgent, or what is sometimes euphemistically termed a crash basis. The anxiety to do something in Viet Nam in the crises in the past has undoubtedly resulted in a haphazard, wasteful, and ineffective development of the program.

I recommend, therefore, that the executive branch give consideration to an exchange of special missions with the Vietnamese Government or to the appointment of a special group along the lines of the Bell Mission to the Philippines in 1950, to survey the present economic difficulties in Viet Nam and the functions of the aid program with respect thereto. The principal purposes of a review of this kind would be twofold: (1) To speed the economic recovery and development of South Viet Nam by more effective and coordinated use of American assistance; and (2) to redesign the aid program with a view to creating over a set period of time a self-sustaining Viet Nam free from further direct reliance on United States assistance.

Cambodia: The Senator stressed that no amount of foreign aid can develop the army to the point where it might offer anything more than an initial resistance to a massive Communist invasion from the north. This observation merely expresses the realities confronting Cambodia and the other small southeast Asian states. Defense against a massive attack can be achieved only in concert with others. He stated that the U.S. aid programs, if properly administered, could be helpful in modernizing Cambodia's economy and army and could be of lasting mutual benefit to both countries.

...It seems to me essential, however, to emphasize that unless great caution and restraint is exercised in administering American assistance it will produce not only an inexcusable waste of American funds but serious dislocations in Cambodia. Aid can act to the benefit of our relations with that country but it can also act to their detriment; it depends on how the program is handled. The problem is a difficult one for we have few available officials with knowledge of Cambodia and none who is competent in the language. I recommend that the executive branch review carefully the extent and nature of all our activity in Cambodia. It has grown rapidly in the past year, as has the number of official Americans in Cambodia, and size in either case is not the measure of what best serves this nation's interests.

Laos: Successful resistance to a major Asian Communist drive into southeast Asia over the Laotian invasion routes could not be carried on by Laos alone, Sen. Mansfield pointed out, regardless of how much material assistance "may be poured into the country." It will depend on the concerted willingness to support the independence of Laos by nations with interests in the region. He felt that military aid policies seeking to do more than bulwark the security forces to a point where they can cope with armed minorities and stop occasional border sallies are highly unrealistic. Likewise, "economic aid programs which attempt to move an ancient pastoral country overnight from the age of the oxcart to that of the airplane, are equally unsound to say the least," he stated. He believed that in attempting to do too much incalculable harm can be done and noted that there has been an enormous increase in United States activity and in the size of the mission during the past year.

Accordingly, I recommend that the executive branch, as in the case of Cambodia, review the extent of our activity in Laos and the size of the mission with a view to keeping both within the realm of the reasonable.

TECHNICAL ASSISTANCE IN THE  
FAR EAST, SOUTH ASIA, AND MIDDLE EAST

Report of  
Senator Theodore Francis Green  
on a Study Mission

January 13, 1956

The technical assistance programs of the U.S. in the Far East, South Asia, and the Middle East have been "on the whole.....well worthwhile from the point of view of the national interests of the United States." This is the major conclusion - of a seven-week study mission from September to November 1955 - on technical assistance programs undertaken by Senator Theodore Green (D., Rhode Island), Chairman of the Subcommittee on Near Eastern and African Affairs and member of the Subcommittee on Technical Assistance Programs. Supplementing this conclusion is the observation that while these technical assistance programs are "in the main technically effective....[they] are handicapped by inadequate planning, lack of clearly defined objectives, and unresolved dilemmas of over-all American policy."

Senator Green's report, released January 13, and based on a study of technical assistance and related programs in Japan, Taiwan, Vietnam, Cambodia, Thailand, Pakistan, India, Iraq, Iran, Egypt, and Israel, states that these areas are characterized by (1) "an extreme nationalism particularly resentment of real or fancied attempts at outside interference;" (2) "a lack of well-developed political institutions with a consequent reliance on government by individual personalities;" and (3) "a lack of administrative experience and of trained civil servants."

Problems of Technical Assistance - "If technical assistance is to lead to economic development," the report states, "and if economic development in turn is to lead to the growth of free institutions, then the process must be accompanied by social changes. The willingness of an underdeveloped country to adapt itself to these changes and even to encourage them is a key test of whether or not American technical assistance will produce the desired results. ....Unless the pure technical assistance is undergirded by a program of land reform, the benefits of increased production are likely to go more to the landlord than to the peasant..... We have too often measured self-help in terms of local government contributions in cash or in kind to specific projects."

The Senator observed "many instances of poor over-all planning, faulty selection of projects, and inadequate administrative follow-up." The report mentions, for

example, U.S. contributions to a fine arts school in Vietnam and observes that this project "has only the remotest relationship to economic development." His conclusion, from this and "similar examples" is that perhaps "the technical assistance program has frequently tried to do too much and too fast and has outrun the administrative organization of both ICA and the cooperating government." The basic difficulty, the report stressed, is that the U.S. is trying to do a long-term job on a short-term basis.

In general, the report continues, the technical assistance program "would be improved by a more rigorous screening of projects with more emphasis given to training people and less emphasis given to supplying equipment." The tendency of underdeveloped nations to emphasize things rather than people and to train, for example, engineers when mechanics are needed, should be offset as much as possible by U.S. advice and guidance.

Contracts with universities and philanthropic organizations are praised by the report, but regarding contracts with private business firms, Senator Green said: "there is abundant evidence.....that these contracts are too often used as a means of recruitment and as a means to break down Government salary ceilings. The net result is that ICA hires an outside firm to do its recruiting and pays, not only the higher salaries of private business, but also a fee to the contractor for his recruiting service." The most appropriate use of such contracts would "seem to be for major construction undertakings which are financed by economic assistance, rather than technical assistance funds, although they also have certain advantages in carrying out specific, limited technical assistance projects which can be accomplished in a few months."

Relationships between U.N. and U.S. technical assistance programs "seemed to be good and getting even better," and the next logical step would be to establish procedures "which would insure, not simply that both programs did not do the same thing, but that one program did do the necessary thing." However, "the trip left the general impression that the U.N. technical assistance program produces more per dollar expended than does the bilateral program of the U.S." "The explanation may be," the report suggests, "that the U.N. has less money and selects both its projects and its personnel more carefully."

The Soviet Economic Offensive - The stepped-up Soviet economic and cultural offensive is plainly evident "almost everywhere in the area." It should not be considered a bluff or the occasion for panic, the report states. "It calls, perhaps, for a somewhat more generous attitude in regard to loans for specific, economically sound projects...and for a more liberal trade policy on our part... ..but does not call for drastically altering the basic nature or scope of our foreign aid program." In spite of the excitement caused in these countries by the Soviet aid talks, "most Asian governments would probably rather have help from the U.S. and from Western Europe than from the Soviet bloc."

#### The Country Programs

Japan - In Japan, where almost two-thirds of US/TA is going into industrial productivity projects, this program "should be administered with extreme care

to insure that the fruits of productivity are equitably distributed and that the program does not result in the rich getting richer while the poor stay poor."

Taiwan - Technical assistance in Taiwan is progressing well, according to the report, but other U.S. assistance programs there should be reappraised because "despite the enormous American expenditures....we have not yet reached agreement as to whether our objective is to make the island a viable economic entity in itself or to generate the military strength for a return of the Chinese Nationalist Government to the mainland." Further economic progress "is highly doubtful" until the U.S. and Chinese Governments agree on the future of Formosa. "This would seem to be one area in which the United States could well adopt a considerably tougher attitude in the administration of its aid programs."

Vietnam - The crash basis for Vietnamese programs with resultant "inadequate planning" perhaps can be replaced now, the report suggests, with careful re-appraisal to redirect the technical assistance program into "basic long-range projects which will make a lasting contribution" to Vietnam.

Thailand - In Thailand, the most important step "to create a more favorable atmosphere for economic development....would be the breaking up of monopolies controlled either by the Government or by persons close to the Government" in order to help "the country generally instead of a privileged few." On the balance, the report states, "the successful technical assistance projects over the last five years probably outweigh the failures," although before FY 1955 the program had too heavy an emphasis on supplies and equipment instead of people.

Pakistan - Pakistan programs, hampered in the past by a "dearth of really capable personnel" assigned to the Embassy and USOM, and "an inordinate amount of neglect from the State Department," the report asserts, should be re-examined and reorganized "on the basis of long-term or at least medium-term (say five-year) planning." In the past, supply of material, equipment, and commodities, has often gotten ahead of the administrative capacities of both the Pakistan Government and the USOM and waste has occurred. "If political considerations dictate continuance of economic aid to Pakistan at anything approaching recent levels, the United States should insist on a much greater administrative role for Americans, and the Americans should receive more support from Washington than has always been the case in the past."

India - "Few American-aid programs outside Europe....have been more successful" than U.S. assistance to India, which "has been dovetailed" into the well-planned Indian development program. The Senator recommends that the U.S. give India the aid required to make the second India five-year plan a success. "Assuming that it ran as high as \$200 million a year over the next five years (and that is certainly exaggerating the need), it would still be less than our total program in Korea and Formosa, and the 377 million people in India have a great deal more to say about the future of Asia than will the 22 million people of Korea or the 10 million of Formosa," he noted.

Iraq - In view of the fact that Iraq's own efforts at economic development are "very considerable," the Senator is disturbed at what he terms "a tendency for the American program to grow and disperse itself rather widely. A slight reduction in 1957 might well benefit the program through forcing a tightening of objectives and increasing a willingness to let Iraq pay for the services which it knows it needs, while we concentrate our own efforts in fields where the need is not so apparent to Iraq."

Iran - Although oil revenues "have not yet reached a sufficient volume to make Iran wholly dependent of outside financial assistance, the time has come to begin a reduction in American aid," the Senator believes.

Egypt - Economic aid program funds for Egypt have been used too slowly, the Senator believes. He points out that since 1951, a "total of \$59 million has been allocated for Egypt, but only \$7 million of this has been spent." Further, he states, "the funds which have been spent appear to have been too widely dispersed without benefit of clear planning or precise objectives." While the economic situation in Egypt "may require somewhat more assistance than the United States has yet made available," of perhaps even "greater importance.... is a clear statement of policy from the United States about the disposition of surplus American cotton."

Israel - In Israel, "one cannot fail to be impressed by the good use to which substantial American aid has been put." The Senator believes that the trend to reduce large-scale aid to Israel is correct, however he emphasizes the need to continue support of an industrial productivity program and observes that \$1.5 million per year seems to be an "appropriate figure" for US TA in Israel.

Conclusions and Recommendations - The report concludes that:

"In most areas the pure technical assistance program would probably benefit from a slight reduction in funds available to it. This would force a more rigorous screening of projects and would stimulate local initiative."

"More attention should be given to the recruiting of technical assistance personnel, and Congress should consider raising salaries if this seems to be the principal obstruction. Most personnel now in the field seem to be technically qualified, but too many of them lack the desirable degree of sympathetic understanding of local problems and customs."

"Congress should consider appropriating funds over a long period," or "establish a policy calling for annual appropriations over such a period," because doing technical assistance right primarily means "taking the long time to do it properly."

GAO REPORT ON IRAN

March 1956

Attached is a summary of a report recently completed by the General Accounting Office on the U.S. technical and economic assistance program in Iran. This report covers the fiscal years 1952 through 1955 and is the outgrowth of GAO examination of the program both at USOM Teheran and at the Washington offices of ICA's predecessor organizations.

The principal emphasis of the survey centers on the financial and related administrative procedures under which the program, totalling \$205,000,000 (\$113,000,000 in emergency economic assistance and \$92,000,000 in technical aid) between FY 1952 and FY 1955, was conducted. Also reviewed are selected projects and activities within the over-all Iranian program.

## GAO REPORT ON IRAN

The importance of the survey undertaken by the GAO and the value judgments generated therefrom are underscored by Iran's strategic position in the oil-rich Middle East. One of the foremost postwar foreign policy objectives of the U.S. has been to help Iran protect her independence, develop her resources and maintain internal stability.

U.S. assistance began in FY 1951 with an initial technical assistance program of approximately \$1,000,000. When the nationalization of Iran's oil industry and the resulting political and economic crisis seriously threatened the nation's internal and external position, the U.S. decided to assist Iran on a larger scale, sufficient to maintain sound conditions in the country. Also, Iran's Seven Year Development Plan, which had been financed by income from the oil industry, was at a standstill and U.S. assistance was requested to help finance the projects undertaken under this plan.

Aid programmed both for FY 1952 and FY 1953 totaled \$23,000,000 each with major emphasis on development of agriculture, public health and industry.

In 1954, following the change of government in Iran, the U.S. increased its program to \$85,000,000 including emergency aid of \$60,000,000. The emergency program was in the form of commodity aid and cash grants, the rial proceeds from which were applied, according to a jointly approved plan, principally for budgetary support of the Iranian Government.

The program for 1955 equalled \$76,000,000, comprising \$23,000,000 for development and technical cooperation projects and \$53,000,000 for commodity and other emergency-type economic aid. A portion of the aid in 1955, aggregating \$32,000,000, was in the form of loans. The local currency proceeds from the 1955 emergency aid program went, as in 1954, primarily for budgetary support.

The program in Iran is administered both by the USOM and the Master Joint Fund, a support organization created under joint arrangements by the United States and Iran and financed from local currency contributions by the two Governments.

At the close of fiscal year 1955, the USOM had a staff of 308 technicians and support personnel, including 88 local nationals. There were

also some 100 technicians employed under contracts with American educational and professional organizations. The Master Joint Fund employed approximately 3,800 Iranian technicians and support personnel. Operations were administered from headquarters in Teheran and 10 provincial offices located throughout the country.

Among the conclusions arrived at and presented by the GAO in its report on the operation of the program in Iran are the following:

1. Significant administrative deficiencies existed in prior years but have been substantially remedied.
2. The complex machinery with which the aid program is administered requires simplification.
3. The Mission did not make systematic end-use checks to determine proper utilization of ICA-financed commodities.
4. Internal control procedures require strengthening to prevent irregularities.
5. Increased Embassy support to the ICA Mission may reduce overall administrative costs.
6. Improvements are needed in the administration of the training program.
7. The utilization of counterpart funds warrants more effective control by ICA.
8. Several industrial-type development projects have serious operating deficiencies which prevent successful completion.
9. The commodity import program has lacked the benefits of centralized administration.

The above report was sent to the Hill on March 15, 1956 and will undoubtedly be utilized by the Hardy Subcommittee of the House Government Operations Committee in its forthcoming hearings on the ICA program in Iran.

HOUSE GOVERNMENT OPERATIONS REPORT ON  
UNITED STATES TECHNICAL ASSISTANCE IN LATIN AMERICA

March 1956

The Committee on Government Operations on March 29, 1956, unanimously approved and adopted as the report of the full Committee the Hardy Subcommittee report entitled "United States Technical Assistance in Latin America." The report concludes that the technical assistance program there (a) lacks clearly defined objectives; (b) has been hampered by failure of Washington to issue instructions clearly defining areas of responsibility and authority assigned to Embassy and USOM officials; (c) contains projects where host-country approval has been obtained through selling methods rather than as a result of bona fide interest; (d) contains projects and programs deficient in planning based on adequate information of the problems; (e) contains programs developed with no provision for phasing out of United States participation; and (f) supports projects the host-country contribution of which cannot be determined because presentations to Congress on this subject have been unrealistic and misleading. The report concludes that some projects are no longer "technical assistance" in character, having become economic aid in essence. The Committee also concludes that the so-called illustrative method of presenting technical assistance budgets is unwise. The need for flexibility to meet unforeseen contingencies is not sufficient to justify the use of this method for technical assistance budgeting, the report notes. Further, the illustrative program fails to provide adequate information for the exercise of Congressional judgment and circumvents the normal requirement for specific Congressional approval in advance of the expenditure of funds. It accentuates the tendency toward hasty allocation and ill-considered obligation of funds during the closing months of the fiscal year, the report notes.

The Committee report states that an analysis of achievements of foreign aid programs must be the basis for assessing how far into the future such activities should be projected. "Such an analysis cannot proceed at the level of philosophical discussion; rather it must rest on a calm and dispassionate audit of the day-to-day operations of the mutual security program in all its various aspects."

It is the assigned duty of the Subcommittee on International Operations to examine the overseas civilian operations of the Government from the standpoint of their economy and efficiency. The Subcommittee recently undertook a factual study of the technical assistance program in Latin America in which cumulative obligations to June 30, 1955, did not exceed \$175 million. A part of the study consisted of a field trip between October 7 and November 1, 1955, accumulating evidence from United States officials in hearings held in capitals of eight countries: Brazil, Uruguay, Argentina, Chile, Bolivia, Colombia, Peru, and Mexico. Ecuador and Guatemala were also visited. The Committee members participating in the hearings were Porter Hardy, Jr., Chairman, Jack Brooks, George Meader and Victor Knox, accompanied by staff members Maurice Mountain and Walton Woods.

Following are the conclusions and recommendations of the report adopted by the full House Committee on Government Operations:

### CONCLUSIONS

1. The technical assistance program in Latin America as a whole lacks clearly defined objectives, although many individual projects have been well conceived and satisfactorily carried out.

2. The technical assistance program has been hampered by failure on the part of the Department of State and the International Cooperation Administration to issue instructions clearly defining areas of responsibility and authority assigned to Embassy and United States Operations Mission officials. In some countries this has been overcome by close liaison and cooperation initiated by field personnel, but in other countries organizational problems and inter-agency disagreements have resulted both from the absence of specific instructions and the sometimes conflicting instructions issued from Washington.

3. Planning of projects and programs has been deficient in that they have sometimes been started without adequate information concerning the extent of the problem, without determination of the availability of necessary technical personnel, and frequently without reasonable evidence of genuine host country interest. As a result, desired objectives have not been achieved.

4. In spite of a basic requirement that only projects desired by the host countries are to be undertaken, the Subcommittee found projects being implemented where host-country approval had been obtained through selling methods rather than as a result of a bona fide interest on the part of the host government. Some of these instances appear to be engendered simply by the availability of technicians. There was also evidence that pressure for certain projects was generated in Washington. Almost invariably such projects were financed with a maximum of United States funds and little, if any, host-country contribution.

5. Although the law intends and International Cooperation Administration instructions require the phasing out of United States financial participation in technical assistance projects, there is no evidence that provision for this is included when the programs are developed and the transfer of projects for continuation by host countries has not been accomplished to the extent desirable.

6. Some projects have continued beyond the point where they can properly be termed "technical assistance" and have assumed characteristics of economic aid. In a number of these cases technical assistance funds are being used to finance what would normally be routine day-to-day activities of the host governments.

7. The so-called illustrative method of presenting technical assistance budget requests to the Congress is unwise. The need for flexibility to meet unforeseen contingencies is not sufficient to justify the use of this method for technical assistance budgeting. The illustrative program fails to provide adequate information for the exercise of Congressional judgment. It circumvents the normal requirement for specific Congressional approval in advance of the expenditure of funds. It entails no commitment by the agency to expend any funds for the particular program used as an illustration. It accentuates the tendency toward hasty allocation and ill-considered obligation of funds during the closing months of the fiscal year.

8. Actual host-country contributions to technical assistance programs and projects cannot be determined because presentations to Congress on this subject have been unrealistic and misleading. This has resulted from (a) the employment of differing exchange rates in the same compilation which have the effect of maximizing host-country contributions and minimizing host-country economic capabilities; (b) the inclusion as host-country contributions third-party funds which actually represent payments made by the beneficiaries for goods and services supplied; and (c) the listing of so-called in-kind contributions which are computed, in part, by placing arbitrary values upon intangibles.

#### RECOMMENDATIONS

The Subcommittee recommends as follows:

1. The Department of State should deal decisively with the organizational problems created by the location of the International Cooperation Administration as a semiautonomous unit within the Department. Positive and vigorous measures should be taken to define on a current basis both for Washington and the field the policy objectives of the technical assistance program.

2. The Department and the International Cooperation Administration should review all existing and applicable directives and instructions governing the technical assistance program for the purpose of (a) bringing them up to date; (b) eliminating existing conflicts and confusion; and (c) clearly delineating the authority and responsibility of Embassy and United States Operations Mission personnel in overseas posts.

3. Administrative controls should be strengthened at the Washington level, and in the field, to assure that deficiencies in program planning are eliminated; that programs approved conform to overall policy objectives; that those which do not so conform are discontinued; that the formal host-country request for a project or

program reflects a bona fide interest and indicates an intent to contribute a fair share of the cost; that in the development of programs provision is made for the phasing out of United States financial participation and the transfer of projects to host-country responsibility.

4. The use of the illustrative program method of presenting technical assistance budget requests to the Congress should be discontinued. Requests for appropriations should be accompanied by completed and well-documented plans which should include clear evidence of bona fide host-country interest.

5. Statistical compilations on which the International Cooperation Administration bases its statements to the Congress and to the public regarding the amount of host-country contributions to technical assistance programs should be entirely recast to reflect a true picture of the relative contributions of the United States and the host countries. Specifically, realistic exchange rates keyed to current values should be uniformly applied; so-called third-party payments should not be included as host-country contributions; in-kind contributions should either be eliminated entirely or should include only those items tantamount to a contribution in cash, whose value is readily ascertainable.

GAO REPORT ON EGYPT

April 1956

Attached is a summary of the major findings and recommendations contained in a report by the General Accounting Office on the financial and administrative aspects of the U.S. Assistance Program for Egypt. Examination of the program, under which Egypt received \$59,400,000 in technical and development assistance through the four fiscal years 1952 - 1955, began in June 1955. The report was sent to the Congress by the Comptroller General on April 11, 1956.

## GAO REPORT ON EGYPT

On April 11, the Comptroller General sent to the Congress the GAO report on its examination of the U.S. assistance program for Egypt, as administered by ICA and its predecessor agencies. This examination, which was undertaken in June of last year, was directed principally toward determining the adequacy of financial and administrative procedures pertaining to the use of mutual security funds allocated for technical and development assistance during fiscal years 1953 through 1955.

Egypt has been receiving aid under the Mutual Security Program since fiscal year 1952. It is the largest of the independent Arab states and faces pressing problems of overpopulation and underdeveloped resources. It also holds the strategic position of custodian of the Suez Canal.

In May 1951, Egypt and the U.S. entered into a Point IV Agreement for Technical Cooperation. After starting with a small program of agricultural development and improvement in 1952, the U.S. undertook, through a series of broad bilateral program agreements concluded in 1953, not only to help Egypt increase its agricultural production but also to improve health standards, reduce illiteracy, survey possibilities for industrial development, and promote advances in public administration.

Through June, 1955, the U.S. had approved 53 individual assistance projects and had committed a total of about \$19 million for equipment, technicians, training, and technical support. The most significant single undertaking is a rural rehabilitation program, known as EARIS, calling for U.S. and Egyptian contributions of \$10 million and \$15.7 million, respectively.

In 1955 the U.S. supplemented its technical assistance by \$40 million of development assistance, the bulk of which is used for equipment and engineering services in the field of transportation and for the installation of potable water systems. Of the \$40 million, \$7.5 million is in the form of a loan.

The U.S. has made available technical and development assistance to Egypt over the past four fiscal years, as follows:

|      |            |
|------|------------|
| 1952 | \$ 400,000 |
| 1953 | 12,900,000 |
| 1954 | 3,300,000  |
| 1955 | 42,800,000 |

The U.S. also agreed to provide Egypt during 1955 and 1956 with \$37 million in surplus agricultural commodities under PL 480.

## Major Findings and Recommendations

The GAO report states that significant improvements in the operating and administrative efficiency with which foreign aid operations are carried out in countries of the Near East, have been made by ICA and its predecessor FOA in the past two years. These improvements are also noticeable with respect to Egypt. However, it was found that deficiencies in program planning and execution inherited from earlier years have not been entirely overcome. There is a tendency on the part of the Mission toward overoptimistic programming rather than to concentrate realistically on projects which the field staff is best equipped to handle. It was noted that on the part of ICA/W, policy decisions were sometimes in conflict with Mission objectives, and there were inordinate delays in procurement and recruitment which impeded the execution of individual projects.

Following are certain specific findings reflected in the report, together with recommendations:

1. Agricultural projects did not have the desired impact on host country conditions and techniques.

Recommendation: Special efforts should be made to focus planning on priority projects, and they should be administered in a manner to assure full acceptance by the host country.

2. Industrial surveys financed by the U.S. have not been acted upon.

Recommendation: In view of the substantial amounts paid by ICA for surveys of this kind, the agency should take all steps within its power to assure that timely action is taken on these reports.

3. Three mining projects (totalling \$175,000), approved in FY 1954, have been at a virtual standstill during 1955 because of the inability to recruit technicians.

Recommendation: ICA should expedite the recruitment process or reprogram the funds for a more practicable assistance undertaking.

4. Health and sanitation programs may warrant stronger emphasis.

Recommendation: In view of the serious health problems encountered in Egypt, consideration should be given by ICA to the possible need for greater emphasis on the health and sanitation program.

5. Educational projects have been slowed by staffing and procurement difficulties.
6. Technical advisory services to EARIS should be more effective, and economies in costs are indicated.
7. Administrative procedures of the joint committees were deficient with respect to (a) financial reports; (b) property control records; and (c) excessive cash balances.

Recommendations: (a) The Mission Controller should instruct the Joint Committee for Agriculture to maintain and report required contribution data. Since the Joint Committee for Public Works has not been actively constituted, the request for contribution data should be addressed to the Egyptian Ministry of Public Works.

(b) Payments into the joint funds should be adjusted more realistically to actual cash requirements according to periodically prepared justifications.

8. The Mission should have complete data on results of training programs in the U.S. and on subsequent utilization of returned Egyptian trainees.
9. The administration of the development assistance program for 1955 was handicapped by insufficient guidance in procurement matters and lack of close understanding between the field and Washington office.
10. Personnel ceilings were overstated in the light of reasonable program requirements.

Recommendation: The Mission should establish more realistic ceilings and eliminate nonessential positions, especially in Agriculture and EARIS.

11. Cost allocations between program and administrative funds should follow established criteria and be fully documented in the files of the Mission.

Recommendations: The Mission should maintain adequate data showing the basis for a reasonable and equitable cost distribution, and in compliance with prescribed criteria.

12. Certain obligation records require adjustment.
13. Fiscal and operating reports from the field should be improved for more effective utilization by the Washington office.

Recommendation: The Agency should consider the introduction of two types of operating reports, in lieu of the present activity report: (a) Brief monthly reports on significant problems or developments during the reporting period, supplemented by a statistical highlight section; and (b) Comprehensive annual or semiannual technical reports, for each field of activity, presenting program accomplishments and failures in the light of approved plans and objectives.

## REPORT OF CONGRESSIONAL GROUP ON MIDDLE AND FAR EAST

On May 6, 1956, a Special Study Mission headed by Rep. Clement J. Zablocki (D., Wisc.) submitted to the Foreign Affairs Committee a report of findings made during a trip last fall to the Middle East, South and Southeast Asia, and the Pacific. A major conclusion of the Zablocki Mission was that if the United States is to succeed in its efforts in this area, it must do more than reappraise its programs; it must subject to minute rescrutiny its policy and its determination. The Group announced that the United States could no longer--even for the sake of its stake in European safety--close its eyes to the fact that colonialism is dead. No longer could the United States be satisfied with half-way measures or those based on mere temporary expediency. "The peoples of Asia and the Middle East merit respect as equals and must be given it. Only by taking them into active and equal partnership can we hope to effect a unity that may yet save the world... In international and national...action, nothing can be politically right that is morally wrong. The United States cannot compromise on moral principles for the sake of expediency. Given the equation of warm understanding of human need plus United States willingness to give such help as will elevate rather than debase self-respect, true friendships based on mutual trust can be built with the peoples of the Middle East and of Asia."

Between October 11 and December 15, 1955, the Zablocki mission traveled some 30,800 miles to make a first-hand study of United States problems, policies, and programs as well as to assess the strength and weakness of the various countries and the degree of Communist penetration in them. Besides Rep. Zablocki, who acted as Chairman, the group included Representatives John Jarman, Robert Byrd, Walter Judd, Marguerite Stitt Church, and Ross Adair. Rep. Richard Wigglesworth of the House Appropriations Committee accompanied the members.

In its concluding remarks, the study group commented that the very efficiency with which we tend to carry out our aid programs along lines which we are sure are best for the countries concerned has produced increasing irritations, even resentment. The Congressmen state the opinion that "we simply will have to do a better job with our human relations in our various aid programs. The key thing is not the amount of aid, it is the manner. It is not enough to analyze figures; we must do a better job of analyzing people. This is where the Communists have left us far behind."

Among the positive factors encountered by the study mission was the imposing economic progress achieved in a number of countries. The study mission was impressed by the volume of construction, both public and private, in these regions. Work on major development projects, many of which have passed the planning stage, was equally encouraging. Considerable achievements were also noted in some of these nations in the realm of economic improvements, as in Israel, Iraq, Iran, India, and Japan.

The Congressmen were heartened by the growing measure of internal political stability and strength noted since traveling to the countries of Southeast Asia and the Far East in 1953. They cited particularly the case of Vietnam, declaring that the "contrast between Vietnam then, without freedom, and now, with freedom, points up an important lesson which applies to similar situations wherever they may be. Whether in Vietnam or elsewhere, men do not fight or work with enthusiasm or sacrifice for a country which they are not sure is going to be their own... Such remarkable developments as have come in Vietnam result from the fortunate combination of three essential factors: national independence, dedicated and able leadership and the steady support of strong allies and friends. The study mission believes that it is a first task of our statesmen to encourage such a combination of factors in the equally difficult situations existing in various other countries around the world."

Note is made of the tremendous effect which the complete reversal in Communist tactics has had upon the peoples of the areas visited. The apparent abandonment of internal subversion and of military aggression by the Communists and the turn to offers of economic assistance simply opens the "second front" in the battle for world domination. The study mission stated the belief that without doubt most of the leaders of the countries visited realize that the overall strategy of the Communists is unchanged. But the fact remains, however, that to many peoples of the Middle East and Far East the Communist pose of friendly cooperation and assistance in the economic realm has many attractions. The Congressional group cautioned that many persons fail to realize that the Communist offers of aid carry with them many expertly disguised and hidden strings, intended to open the way for the establishment of Soviet influence and eventual domination over the peoples of the area. They concluded that the combined effect of the first Geneva Conference, and of the change in Communist tactics, had resulted in the growth of neutralism in these regions.

The study mission reported that in many countries the United States is blamed, however unjustly, for failure to prevent or resolve the explosive conflicts of the area, as in the cases of Cyprus, the Afghanistan-Pakistan dispute, Japanese-Korean differences, and other issues. Many of these nations expect us to have, and to use, an authority associated in their minds with colonial controls of the past. Our failure to take sides, even when we have no authority or right to do so, is regarded as due to indecision on our part and produces keen disappointment and resentment. Such situations have further increased the problem by diverting attention from the far greater danger--the Communist threat, the group warns.

The Congressmen remarked in conclusion that the nations of the free world, who join mutually in recognition of a Divine Power, cannot and must not let themselves be subdued by an atheistic communism that defies and denies the spiritual realities and values which are the source of the strength of the free world. The members stated that too little recognition had been given to the unique unifying factor which this common bond of religious faith could be among the free peoples.

REPORT ON TECHNICAL ASSISTANCE BY THE SENATE COMMITTEE  
ON FOREIGN RELATIONS

May 7, 1956

The Senate Committee on Foreign Relations has adopted and authorized the transmittal to the Senate of the report, of its Subcommittee on Technical Assistance Programs chaired by Senator Mansfield. The report follows public hearings and executive sessions in Washington in the winter and spring of 1955 and field studies in the Far East, South Asia, Middle East, Europe, Central America and Caribbean in the late summer and fall of 1955. According to the Subcommittee, its study was conducted on the premise that the sole test of Technical Assistance is the national interest of the United States. The report, mostly favorable in tone, states that the Committee believes that the Technical Assistance Program has been effective in advancing American foreign policy; that most of the money has produced results in the national interest of the United States; and that the program should be continued and strengthened.

According to the Subcommittee, Technical Assistance is in the national interest of the United States when and only when it not only promotes economic development but encourages the growth of free institutions within the framework of a free society. On this basis, the Committee point out, the interests of the United States coincide with those of the underdeveloped countries and are the exact opposite of the imperialist design to impose American dictates alleged in Communist propaganda.

While affirming that the object of Technical Assistance is economic development, the Subcommittee deplores the tendency in certain areas to conceive of Economic Aid as the basic program with Technical Assistance as an adjunct. Carefully distinguishing the problems in underdeveloped countries from those in Europe at the time the Marshall Plan was conceived, the Committee concludes that economic development requires an entirely different approach than economic recovery. According to the Subcommittee, the proper conception, with respect to underdeveloped countries, is that which holds Technical Assistance to be the basic program, with temporary economic aid as an adjunct in certain specifically selected countries. The Subcommittee recommends that the administrators and policy makers should always keep in mind that Economic Assistance is short term and Technical Assistance is long term.

Highlights of the Subcommittee's findings and recommendations follow:

1) While some of the money which the United States has invested in technical assistance over the last four years has been wasted, most of the money has been well spent.

2) The Technical Assistance program has been effective in advancing American foreign policy, but it can be made more effective by relating the program activities more precisely to the foreign objectives of the United States through further integration of ICA with the Department of State.

3) There are two limitations in Technical Assistance which deserve more attention than they have received to date: (a) The absorption capacity in recipient countries and (b) the supply of American technicians and administrators qualified to carry out the program. According to the Subcommittee, the technicians and administrators should not only be competent in their specialties, but have familiarity with the language, customs and problems of the country to which they are assigned.

4) The United States should continue its support of the United Nations expanded technical assistance program, and even increase the dollar amount of such support, provided there is no increase in the percentage of contribution.

5) The Technical Assistance program should be continued at approximately the same level, and should be further reviewed by Congress in 3 to 5 years.

TECHNICAL COOPERATION IN LATIN AMERICA --  
RECOMMENDATIONS FOR THE FUTURE

June 1956

This study — a comprehensive appraisal by the National Planning Association of both public and private technical cooperation programs in Latin America — was made over a period of three years by the NPA Special Policy Committee, composed of 26 U.S. and Latin American leaders from agriculture, business, labor, education, health, and religious and professional groups.

The Committee recommends emphatically that technical cooperation be continued for the foreseeable future by the United States, United Nations, Organization of American States, and by private U.S. groups — the religious agencies, foundations, philanthropic organizations, universities, trade unions, and business firms which are operating in Latin America. There is ample evidence, it believes, that technical cooperation -- "the systematic sharing of technical and scientific knowledge and skills among peoples of different countries" — can be an effective long-range instrument of U.S. foreign policy.

The Committee is "convinced that technical cooperation has provided an unusually large return for a relatively small investment of money, men, and effort." Its analysis shows that technical cooperation programs have benefited all cooperating countries and groups despite a number of important, but curable, defects. Before most of the needed improvements can be achieved, the Committee stresses, the programs must have long-range organizational and financial stability. While concentrated on the experience and needs in Latin America, the Committee points out that many of its recommendations also apply to technical cooperation programs in Asia, Africa and the Middle East.

Included in the report are more than 100 recommendations on policies and methods which will help public agencies, private groups, and the governments and peoples of Latin America, through more orderly and effective technical cooperation, to speed economic and social development. For its analysis and conclusions, the Committee was able to draw upon voluminous reports by research staff members, who -- under the direction of Theodore W. Schultz, NPA Board member -- made first-hand studies in all 20 Latin American republics.

H. Christian Sonne, Chairman of the NPA Board of Trustees and a member of the Special Policy Committee, releasing the report, said: "The constant linking in public debate of technical assistance, economic aid, and military assistance has had an unfortunate effect

here and abroad. It has led to much unnecessary misunderstanding and lack of support for technical cooperation -- a much happier and more accurate term than technical assistance. Technical cooperation is something quite different from economic aid, even though many underdeveloped countries are justified in seeking both. By no means, however, should technical cooperation ever be tied to military alliances, and it should be clearly divorced from any taint of colonialism."

Mr. Sonne added: "We believe that continued and improved technical cooperation can expedite economic and social growth and political independence in many parts of the world. The United States -- which is spending far more for technical cooperation than any other country through both the bilateral and multilateral programs -- has a real and sobering responsibility for its future success. The amounts needed will not be large, but the results in terms of increased goods, services, and satisfactions will be great. This country can well afford the relatively modest investments needed, as indicated by the fact that U.S. appropriations for all technical cooperation -- bilateral, UN, and OAS -- in the current fiscal year are only a little over \$150 million. Appropriations for defense and military aid are well over 200 times as large."

Laird Bell, Chairman of the Special Policy Committee and member of the NPA Board, pointed out: "People of the less developed countries everywhere are determined today to have better levels of living. The Latin American countries are on the march. They will progress with or without our help, but haphazardly, unevenly, slowly, and with much waste motion if they are not given some kinds of help." He emphasized the Committee's conclusion that: "In some countries, the dearth of capital for economic development -- roads, dams, and the like -- may make it futile to share only knowledge and skills unless elemental requirements for capital are also met." On the other hand, "some countries receiving loans and grants for economic aid and developmental assistance need technical cooperation in order to use the funds effectively." Under either circumstance, he said, the two programs should be closely related.

The Committee's most detailed recommendations pertain to the programs of the public agencies. The United States, the United Nations, the Organization of American States, and the Latin American governments, the report says, have been "plagued by organizational, administrative, and financial instability. The host countries have not known whether they could expect continuing cooperation. The participating agencies have been unable to recruit and retain enough well-qualified personnel to staff programs. Similarly, in the host

countries there has been a serious shortage of well-qualified men and women willing and able to help administer the joint programs. Decision making has been held too closely in the headquarters' offices of the participating agencies and in the ministries of the host countries. Men and women in the field have had too little leeway in planning and administering programs. There has been too little consultation and exchange of information among the public agencies and private groups concerning their current and prospective programs." Furthermore, the Committee feels that there has been too little recognition that specific techniques which are successful in one country cannot be effectively applied unless they are altered to fit the needs and stage of development of another country. The primary aim is to help develop techniques which can be widely disseminated and used in the particular host country.

The Committee stresses, also, the role of nongovernmental groups in technical cooperation -- not only in their own privately financed programs, but also under private contracts with public agencies. Cooperation between the universities of the United States and Latin America in developing training and research centers to serve the needs of the host country is a particularly promising development, according to the Committee. Contracts for university-to-university cooperation, financed by bilateral technical cooperation funds, have been increasing steadily since 1951. Most of the training of Latin Americans to improve technology and advance economic development should be done in the universities of their own countries. University-to-university cooperation will speed the revision and expansion of curricula and facilities necessary to do this.

In addition to recommendations on fields of activity, administration, and policy matters, the Committee describes Latin America needs to which technical cooperation programs should be tailored and the strengths and weaknesses of different methods of operation; summarizes public and private programs; and presents an appendix containing statistical and other factual information concerning the development and status of technical cooperation in Latin America.

## SUMMARY OF MAJOR RECOMMENDATIONS

### Overcoming Financial Instability

The United States, UN, and OAS should increase appropriations judiciously from year to year as other limitations -- such as personnel and organizational difficulties -- are overcome and mutually acceptable programs developed which the host countries will support wholeheartedly.

Host countries should make matching efforts to increase their financial contributions for technical cooperation.

All member nations of the UN and OAS should increase their contributions for technical cooperation and pay their pledges promptly. The United States should increase its contributions to the UN and OAS as rapidly as the other governments increase theirs, not exceeding, however, its present proportion of the total.

Continuing appropriations should be authorized for U.S. technical cooperation programs -- which is the normal policy for continuing expenditures -- rather than reauthorizing appropriations every year. The UN and OAS should take similar action.

### Curing Administrative Instability

The creation of the semiautonomous International Cooperation Administration within the State Department was a desirable move and presumably ended the recurring reorganizations and confusion in the U.S. agency for technical cooperation. But ICA should be given top management of proved ability, and should promptly set its administrative house in order. It should cooperate closely with other U.S. government agencies, but should not divide its responsibility for technical cooperation.

The UN and OAS immediately should take remedial action to overcome the administrative instability and uncertainty which also have characterized their programs.

The Latin American governments should take greater pains to assure that requests for assistance are well planned and to provide adequate facilities to make the work of foreign technicians productive. And they should give more attention to creating conditions so that technical cooperation projects can be transferred as promptly as possible to permanent local agencies.

### Personnel -- A Major Problem

Finding and keeping qualified "shirt-sleeve ambassadors" as technical cooperation personnel should have first claim on the

attention of ICA, UN, and OAS, as well as the private groups whose programs also have been hampered by this continuing problem.

The United States, UN, and OAS -- which have career services for regular employees -- should promptly place in some form of career service their administrative and professional personnel serving abroad in technical cooperation programs. The work of career employees, whose sustained service in one host country should be encouraged, could be supplemented as needed by short-time assignments of qualified specialists who are outside the career service.

The public agencies and U.S. universities, foundations, and other nongovernmental groups should cooperate in establishing comprehensive training courses for prospective and newly recruited technicians for service abroad.

Latin American governments could increase the effectiveness of technical cooperation employees if they would accelerate moves to improve public administration practices. Civil services are unstable; often government workers are employed only part time and are poorly paid, untrained, and politically dominated.

All technical cooperation agencies and groups should emphasize programs for training nationals of the host countries at Latin American universities, for expansion of specialized regional training centers and short courses, for providing grants to study abroad. And all should conduct continuing, in-service training for Latin American employees in each technical cooperation program and project.

#### University-to-University Cooperation

The number of university-to-university contracts financed by the bilateral program and the scope of activities under them should be expanded as rapidly as the participating universities can agree on productive programs and methods. The initial contracts should provide sufficient funds for the universities to carry out significant cooperative activities and also to make plans for continuing cooperation, if that seems desirable, after the contract expires.

The UN and OAS should also try university-to-university contracts with appropriate institutions of the United States and other countries.

#### Fields of Activity -- Programs to Meet Latin American Needs

Although specific needs for technical cooperation differ from country to country, in most of Latin America both the public

agencies and private groups should continue to give a major share of attention to the large demands for advances in health and sanitation, education, agriculture, and public administration.

While much progress has been made on all these fronts, much more should be done by public agencies and private groups to help meet the most pressing needs of an area where 60 percent of the total population is rural, only a little over half of those over 10 years old can read or write, and life expectancy averages only about 45 years.

In addition, all public agencies and private groups should continue their efforts to develop worthwhile and needed programs in industry, mining, labor, transportation, low-cost housing, community development, and other fields in which technical cooperation has begun more recently.

#### Operations in Host Countries

The headquarters offices of the public agencies should determine broad policies for programs, but once they are established should leave wide latitude to the field staff for planning and administering projects in cooperation with the officials of the host country.

The headquarters offices of all agencies and groups should provide more technical advice and support to field missions, as well as enough supplies and demonstration equipment to assure that nationals of host countries learn new techniques through actual practice rather than theory alone.

Better methods should be developed for preparing and reviewing both annual and long-range plans and for assuring that projects which are part of the on-going technical cooperation programs are transferred to domestic agencies. To this end a terminal date should be written into the original agreement establishing each project.

Technical cooperation programs should guard against the introduction of improvements which require expenditures too great to permit their wide adoption.

The UN should accelerate, as funds become available, its shift from purely advisory activities to the assumption of joint responsibility with the host government for operation of technical cooperation programs. And the United States should continue its emphasis on joint operations.

The OAS, which has limited its activities almost entirely to regional training centers in Latin America, should enlarge its training program as funds permit, and should consider more direct assistance to member governments in sensitive fields such as some phases of public administration, agrarian reform, and raising the social and economic levels of the Indian population.

#### Private Groups

All private groups should continue and expand the transfer of knowledge and skills to Latin America. They have been giving technical assistance to Latin Americans for a much longer period than the public agencies, and their number is steadily increasing. One of their major assets is freedom to experiment and innovate. They have a further advantage in that, as private groups, they are insulated from any possible accusations of political intent and from current fluctuations of feeling toward the U.S. Government. The U.S. business firms, trade unions, universities, religious groups, foundations, and philanthropic organizations are in a particularly strategic position to cooperate with nongovernmental groups and institutions in Latin America. All public agencies should make more use in many of their programs of contracts with qualified private groups.

#### Inter-Agency Collaboration

Joint consultative procedures for representatives of the UN, OAS, and U.S. and Latin American governments should be established in each host country to assure that their programs are planned so that all complement the country's long-range development programs. At the same time, the public agencies should initiate an orderly and continuing exchange of information with private groups in the host country.

An adequately staffed technical cooperation clearing house should be established in the United States by the public agencies and private groups. Such a clearing house should be supported by foundation grants and by contributions from participating groups. It should not be dominated by the public agencies.

SENATOR ELLENDER RECOMMENDATIONS ON  
THE MUTUAL SECURITY PROGRAM

June 1956

Senator Ellender (D.La.) has filed with the Senate Appropriations Committee a country-by-country report of his trip last fall. He set forth his recommendations in summary fashion in the Congressional Record of June 28 during debate on the Mutual Security authorization bill. Highlights of his recommendations on ICA operations follow.

BREAKDOWN OF FUNDS

The ICA should be instructed to provide at least six weeks in advance of hearings each year a by-country breakdown of funds in "pipeline" status, counterpart balances and unobligated and obligated funds. This information would help the Appropriations Committee see actual fiscal needs and indicate where unused funds might be recaptured for new uses and/or redistribution.

PROGRAMMING

Planners should adopt the rule of reason in programming. ICA Washington should cease reversing local administrative decisions as to the wisdom of undertaking any specific project. Reportedly, the Taiwan USOM turned down a proposed hydroelectric project only to be reversed by Washington....Use of counterpart balances or other funds to balance local government budgets should be discontinued at once....The Committee staff should investigate the influence of the Chinese Technical Mission in the U.S., which reportedly can acquire Washington approval of programs which local-level administrators rejected as not feasible..... The Nixon plan for American financing of educating Formosan and other Asian nationals in American schools should be abandoned, as should be the proposed program for U.S. financing of a Nationalist Chinese GI bill of rights.

AUDITS

Special General Accounting Office teams should be dispatched to Formosa, South Korea, and the Associated States for a complete audit of ICA accounts. The aid program in these nations is foundering in fiscal chaos.

JUSTIFICATIONS

Tighter justifications should be required of ICA officials and present transferability provisions should be reexamined. Presently

allowed leeway seems to have resulted in a complete breakdown of program control by the Congress in almost all areas of the world.

#### CAPITAL INVESTMENT PROGRAMS

No such programs should be undertaken anywhere unless the local economy can justify them. The U.S.-financed glass factory in Formosa is cited as a case wherein the product is in negligible demand.

#### CONSIDERATION TO LOCAL CONDITIONS

In rehabilitating any war-ravaged land, or in extending technical assistance in community development, health, etc., administrators should take into consideration normal living habits of the area. Senator Ellender criticizes building brick and stone structures in Korea to replace those of traditional Korean materials, while commending ICA efforts in the Philippines where the local barrio clean-up campaign makes sense.

#### SOVIET COMPETITION

Indian and Egyptian threats to enlist Soviet aid unless America meets certain demands should be ignored. Our aid effort in India should be governed by a rule of reason consonant with respectable requirements and our present fiscal capabilities. The U.S. should not yield to pressure which amounts in essence to international blackmail.

#### YUGOSLAVIA

Senator Ellender compliments the manner in which our allies are assisting the Yugoslavian aid program, the first example of a practice which should be extended to every nation presently receiving U.S. aid. We should insist on full inspection of the use to which our military aid is put, and not give Yugoslavia aid on a "carte blanche" basis.

#### INDIA

A reexamination is needed in the India program, where a tremendous backlog of unexpended balances exists. New appropriations for India should be curtailed for this area until these balances are reduced.

#### THAILAND

The aid program should be reevaluated in Thailand, where tremendous sums of money have been spent with apparently no appreciable results.

#### INDOCHINA

There should be a coordinated program in the infant Republics of Laos, Cambodia, and Vietnam, with a specific number of objectives

promulgated and implemented at once. Aid in this area has been on a piecemeal basis, with no assurance that any comprehensive improvement will result. We should press for the removal of new and artificial trade barriers which presently choke trade among the three nations. U.S. efforts should be confined to programs which will quickly show results. The crying need in free Asia is for aid which will better conditions today, not tomorrow. Under no circumstances should U.S. funds be used to construct a new palace for the King of Laos. Here, as in Thailand, no commitments should be given as to the scope or length of the aid program. Efforts are presently underway to obtain commitments for a long-term capital investment program. These should not be given. Plans for constructing and maintaining a military academy in Cambodia should be abandoned. ICA administrators should cease accepting counterpart funds generated by the sale of items purchased with appropriated dollars as local government contributions in Vietnam and other areas; ICA officials should be discouraged from resorting to what is an obvious subterfuge in the matter of local contributions. The U.S. should stop financing the small contingent of French troops remaining in Vietnam, an unconscionable practice.

#### BURMA

There could be a modest assistance effort in Burma, where technical aid in particular is urgently needed. Arrangements could be made to permit reimbursement by the Burmese for any aid rendered them since they do not desire American handouts.

#### PHILIPPINES

Our Government should make immediate and strong representations to that Government respecting the collection of taxes levied, to the end that either local government contributions to the aid effort are increased or our program is curtailed.

#### JAPAN

No aid program should be undertaken in Japan, but the U.S. could assist the Japanese, through existing diplomatic channels, in finding outlets for their manufacturing output. Senator Ellender understands that the U.S. Ambassador recommended against an aid program but was overridden by Washington.

#### KOREA

The U.S. should cease providing direct budgetary support to the ROK Government. The aid program should be restudied with a view toward increasing private capital participation rather than socialization of the Korean economy.

## GAO REPORT ON LEBANON

On June 7, 1956, the Comptroller General of the United States submitted to the Congress the GAO report on its examination of the U. S. Assistance Program for Lebanon as administered by ICA and by its predecessor agencies. The report covers the period from the inception of the program in 1952 through fiscal year 1955 and was based on a review, as of June 30, 1955, of pertinent records and procedures at the Washington office of ICA and the overseas mission in Lebanon.

The review covered the financial and other administrative procedures with which the assistance program was carried out, with particular reference to the development assistance program authorized in 1954 and 1955, and selected major technical assistance projects. The study also included a survey of certain regional assistance activities which ICA has carried on in Lebanon for the benefit of the entire Near East and Africa area.

Following is a summary of the report's findings:

### Summary of Findings

1. Strong top-level planning with the host government is made difficult because of the lack of an over-all planning agency within the Government of Lebanon. The Mission advises, however, that Lebanon is making some progress toward establishing such a body.
2. In view of the multiple assistance efforts in Lebanon by various organizations in addition to ICA, such as the United Nations, the French Agricultural Mission, and the Ford Foundation, there is a need for closer coordination.
3. Forward planning of individual projects by the field staff is required. The 1956 budget estimates were prepared by the Washington office without detailed supporting plans submitted by the technical staffs in the field.
4. The host country has been reluctant to assume a fair share of the costs of the cooperative program as stipulated in the bilateral agreements. While contributions for office space and other local support have become more adequate at the insistence of the USOM, the United States has received no accounting of such contributions.
5. The procurement of equipment and of technical services in the United States has been excessively slow and has impeded the implementation of several project agreements.

6. The 1954 special economic assistance program suffered from lack of planning and slow progress.

7. The USOM's Division of Agriculture has not applied the necessary vigorous approach to expedite agricultural project implementation and effect maximum utilization of aid funds. The Mission Director has made arrangements for periodic direct meetings with the Ministry of Agriculture to bring about better mutual understanding and cooperation by the Lebanese authorities.

8. Technical assistance funds were used for two projects which constitute development assistance: (a) construction costs of a new building for the Industry Institute, and (b) construction of certain irrigation canals.

9. Financial procedures and records require improvement. Specific action is needed to clear up the large amount of undistributed expenditures; divided financial responsibility between the Mission and Washington has prevented unified accounting control; the allocation of costs between administrative and program funds has been inequitable; and the functions of the Mission Controller should be strengthened.

10. The regional training program at the American University of Beirut requires a full policy review. Full disclosure should be made to the Congress of its objectives and specific sanction obtained for such use of mutual security funds.

#### Cancellation of 1955 Development Assistance

The GAO examination also dealt with the obligation in 1955 of \$5.7 million under a development assistance agreement, the subsequent cancellation of this agreement in 1956, and the intended disposition of the \$5.7 million which became available by virtue of the cancellation.

In view of the unusual circumstances underlying the obligation and deobligation of these funds, the report stated that the GAO had questioned whether it would be administratively proper for ICA to exercise its legislative authority to reprogram these funds--their thought being that ICA should earmark them as unavailable for obligation and at the proper time transfer them to the Treasury. GAO was informed, however, that the Director of ICA had already indicated his intention not to reprogram the \$5.7 million made available through cancellation of the loan agreement. The report stated that the actual disposition of these funds will be ascertained in connection with GAO's periodic audit of ICA financial operations.

### PART III

#### NEW PROPOSALS ON

#### THE FOREIGN AID PROGRAM

The inclusion of the following plans and proposals is not to be construed as constituting an endorsement of either their basic premises or their recommendations. Neither have they been "selected" on any basis other than the simple fact of having been sent into the agency, the State Department or the White House by their proponents, or of having appeared in the press.

A NEW FOREIGN ECONOMIC POLICY  
FOR THE UNITED STATES

Attached is a summary of the major proposals  
advanced by Professors Max Millikan and  
W. W. Rostow in their study of U.S. foreign  
economic policy, and excerpts from their  
report.

This material was printed in the  
Christian Science Monitor of May  
31, 1956.

## *A New Foreign Economic Policy for the United States*

There has been a strong feeling, even among administrators themselves, that a whole new approach to United States foreign aid has to be fashioned. In a 104-page document, excerpted on this page, Profs. Max Millikan and W. W. Rostow, economists of the Massachusetts Institute of Technology and of the Center for International Studies, set down their proposals made at the request of high government officials. The report now is being studied by the National Security Council and may well have significant influence on future economic foreign policy trends. Both authors have served as government consultants and participated in broad strategic planning.

### **Program for Growth of Free World**

Following is a summary of the major proposals for changes in foreign economic policy advanced by Professors Millikan and Rostow in their study:

1. The United States should launch at the earliest possible moment a long-term program for sustained economic growth in the free world. This program would make available to the underdeveloped areas sufficient additional capital and technical assistance to satisfy all likely demands for such assistance which meet fairly high standards of eligibility based on the prospective productivity of investment. The levels of investment assumed would be sufficient to make possible an over-all 1 per cent annual increase in real income per capita for all the underdeveloped countries of the free world. In practice, some would grow faster, some slower than this rate.
2. As part of this program the United States Government should offer to provide a new long-term capital fund of from 10 to 15 billion dollars to be available for loans and grants over a five-year period to accelerate economic growth in underdeveloped areas. Although an initial five-year allocation is recommended, the plan would look ahead for a longer period, at least a decade.
3. This sum would be accompanied by commitments from the governments of other advanced industrialized countries to make additional loans and grants of from two to three billion dollars over the same time period as part of a unified free world program.
4. Concerted measures should be taken to enlarge the international flows of private capital. Such measures might yield an addition over present levels of three to four billion dollars during the first five-year period.
5. These sums must be made available to free world countries without any military or political strings, but under strict businesslike criteria designed to guarantee that the loans and grants could be effectively used and that the loans could be repaid within a reasonable period of time.
6. Applications must be initiated and sponsored by responsible public or private bodies of citizens of the recipient country, and evidence must be presented of widespread public support of the broad goals of the programs of which projects are a part.
7. It is most unlikely, if such criteria are enforced, that the whole of the sums offered would be taken up. It is essential to the plan, however, that availability of the full amount be guaranteed in order to remove capital as a bottleneck to economic growth and to provide maximum stimulus for the governments and peoples of the underdeveloped countries to expand their capacities to use capital effectively.
8. A systematic plan should be worked out for establishing international stocks of agricultural surpluses to be made available for development purposes.
9. Loans and grants should be administered by existing national and international agencies, including the Export-Import Bank, the International Bank, the Colombo Plan organization, and so on. New machinery is required, however, to set the ground rules and lay down the criteria for the investment program.
10. Against the background of the loans and grants envisaged the program would include features designed to:
  - (a) Restore and maintain an efficient international division of labor, insuring for industrial countries sources of agricultural products and raw materials and markets for their products.
  - (b) Stabilize in the interest of the supplying countries raw materials and food-stuff markets and prices.
  - (c) Liberalize United States trade policies by progressive stages.
  - (d) Achieve free world currency convertibility.
  - (e) Achieve a common free world policy on East-West trade.

By Max F. Millikan  
and  
W. W. Rostow

It is the thesis of this paper that a much-expanded long-term program of American participation in the economic development of the underdeveloped areas can and should be one of the most important means for furthering the purposes of American foreign policy. We believe such a program can be so designed as to be a principal and effective instrument in our efforts to produce political, social, and psychological results in our interest.

Specifically we believe that such a program is one of the few concrete instruments available to us for achieving the twofold result of (1) increasing the awareness elsewhere in the world that the goals, aspirations, and values of the peoples of other countries are in large part the same as ours, and (2) developing viable, energetic, and confident democratic societies through the free world.

To be effective such a program would require United States Government expenditure somewhat larger than current spending for economic aid. On the other hand, it would permit the orderly disposal of at least some of our large agricultural surpluses, and the additional money needed would be small compared to what we will have to spend in desperate efforts to salvage situations which have been permitted to degenerate such as South Korea and Indochina and to put out additional brushfires if they get started. The costs of such a program would be insignificant compared to the costs of waging limited wars.

### Program Purposes Weighed

The general philosophy of such a program as well as its detailed design must, of course, depend on what it is supposed to accomplish. Underlying much of the controversy over development assistance programs are differences, usually implicit rather than explicit, as to the purposes of such programs. Are they mainly to win friends for the United States, to strengthen the military capabilities of our allies, to induce other countries to follow foreign policies to our liking, to reduce the appeal of communism to the poverty stricken, to benefit the United States economically, to support private enterprise economies, to induce healthy internal political development abroad, to raise living standards for humanitarian reasons, or for any of a dozen other purposes?

Insofar as the United States national interest is taken as a point of departure, these differences of objective spring from even more fundamental differences as to what constitute the principal dangers and opportunities confronting us in our relations with the rest of the world. Before developing in detail, therefore, the case for a new foreign economic policy for the United States, it is important to try to state briefly the foreign policy context into which such a program is designed to fit.

As we see it there are two priority tasks for United States foreign policy. The first of these is to meet effectively the threat to our security posed by the danger of overt military aggression. This danger arises, at the moment, from the capabilities and possible future intentions of the Communist-bloc countries. It is to be met primarily first by maintaining or increasing United States military strength and second by solidifying alliances with other countries in a position to contribute significantly to American strength. . . .

The second priority task of our foreign policy is to use our influence to promote the evolution of a world in which threats to our security and more broadly to our way of life are less likely to arise. . . .

### Stable Base Needed

Underlying the proposals in this paper is the conviction that the United States has put relatively too much emphasis in recent years on pacts, treaties, negotiation, and international diplomacy and too little on measures to promote the evolution of stable, effective, and democratic societies abroad which can be relied upon not to generate conflict because their own national interests parallel ours and because they are politically healthy and mature. This conviction, in turn, is based upon an estimate of the nature of the forces at work in the world making for change.

It has become a commonplace that we are in the midst of a great world revolution in the horizons and expectations of the world's peoples. For centuries the bulk of the world's population has been politically inert. Outside America and Western Europe, and even in parts of the latter, the pattern of society has remained until recently essentially feudal, the possibility of change has for most people seemed remote, and political activity has been confined to a tiny elite. Within the past 40 years two world wars and a phenomenal increase in the ease and effectiveness of communication have fundamentally altered the perspectives of hundreds of millions of people. The last 15 years have witnessed a great acceleration in this process. . . .

This revolution is rapidly exposing previously apathetic peoples to the possibility of change, is creating new aspirations for education, social improvement, and economic development, and is at the same time breaking down traditional institutions and culture patterns which have in the past constituted the cement holding society together. In short, the world community is becoming both more interdependent and more fluid than it has probably been at any time in history.

This fluidity presents us both with a great danger and a great opportunity. The danger is that the forces of instability and disintegration will get out of hand, that increasing numbers of people will become convinced that their new aspirations can be met only through violent change and the renunciation of democratic institutions. The danger is greatly enhanced by the existence of a philosophy—communism—which gives this course intellectual appeal, and a power apparatus—the Soviet conspiracy—which can mobilize and direct it.

It is our conviction that such successes as communism have achieved are due not so much to any inherent attractions in Communist ideology as to the fact that the Communists have recognized their opportunities to exploit this revolution of rising expectations. Where they have been most successful their appeals have not been narrowly doctrinaire but have been closely tied to the emerging desires of local groups. Even in the Stalin era the party line was not, as it was so often pictured by Western observers, rigid and unyielding, but was tailored locally to the particular interest of Indonesian villagers or Italian workers or Vietnamese peasants. . . .

We for our part have largely failed to provide an alternative focus. We are increasingly seen

in the uncommitted areas of the world as a power at best neurotic and at worst aggressive, preoccupied with military preparations and with a game of international power diplomacy which has no meaning for the newly awakened ordinary citizen. We are no longer identified, as we once were, with the aspirations of people for social and economic improvement or with the utopian image of a society designed to satisfy those aspirations.

Our great opportunity lies, of course, in the circumstance that in fact we have developed more successfully than any other nation the techniques—social, political, and economic—for giving effect to widespread popular desires for change without either compulsion or social disorganization. Recognizing that these techniques must be adapted to local conditions abroad, we nonetheless have enormous potential for steering the world's newly aroused human energies in constructive rather than destructive directions. Our influence can, of course, be no more than marginal. The political, social, and economic development of foreign areas is a task for the peoples of these areas themselves, and we cannot insure that they will do it well or badly.

But two considerations suggest that it would be inexcusable for the United States not to exert to the utmost whatever marginal influence we have. In the first place we have a compelling national interest in promoting a world environment in which we ourselves can live freely, secure both from the menace of hostile states and the distraction of chaotic ones. In the second place American society is at its best when we are wrestling with the positive problems of building a better world. . . .

[The report then discusses four misconceptions about economic aid: that it will "bring us friends," "strengthen foreign military capabilities," "guarantee reliance on private enterprise," and that "communism springs from hunger."]

In the face of the powerful battery of arguments that whatever the economic effect of economic programs (and we have yet to examine whether even an economic effect can be expected) the political and psychological effects can be contrary to our interests, how can the thesis stated at the opening of this paper be defended? Would it not be better to leave the peoples of the underdeveloped areas of the world in a state of placid stagnation rather than arouse expectations that neither we nor they can possibly satisfy and expose their societies to the risk of social and political disintegration?

We have already suggested an obvious negative answer. The question implies an option that is not in fact open to us. The process of change is already inevitably and irreversibly under way, the expectations are already aroused, and the economic, political, and social revolution of the underdeveloped areas is already inexorably on the march. . . . This alteration will be accelerated in the coming decades. Hence the alternative of supporting semifeudal stability is a mirage.

### Powerful Case Exists

More constructively, however, there exists a powerful, positive case for an active promotion of economic development. The substance of this case can be found in the political, social, and psychological effects that a well-conceived economic development program can be made to have. Some actual increase in the per capita availability of material goods, while not enough by itself, is certainly a necessary condition under modern circumstances for the development of stable and peaceful societies and for the viability of democratic institutions.

Even more important, however, are the confidence generated by a sense of progress, the social mobility, the outlet for leadership energies, the national cohesion, the consolidation of new individual and group values, the discovery of new sources of satisfaction and achievement which a concentration on social and economic development can bring. . . .

How can economic development programs serve these lofty ends? To see this we must first develop more fully some of the requirements that must be met if these areas are to achieve political maturity:

1. There must be posed for the leadership and the people of each country challenging and constructive internal tasks which will capture the imaginations and harness the energies of persons throughout the society. . . .

2. The constructive issues around which unity and cohesion are to be forged must relate to the emerging aspirations of all classes and regions in the society. The fight against international communism is neither sufficiently meaningful nor sufficiently related to the current hopes of the bulk of the peoples of the underdeveloped areas to be an effective standard around which to mobilize political activity. . . .

3. These countries must find ways of developing new, young, and vigorous leadership. . . .

4. Related to the recruitment of new leadership is the need for greatly increased social, economic, and political mobility. . . .

5. Related to this fact is the requirement, if these countries are to achieve mature political development, of finding ways to bridge the almost unbelievable gulf between the urban classes, often Western educated, and the countryside. . . .

6. Perhaps the most critical requirement is that the people of these countries develop a degree of confidence both as a nation and as individuals and small communities that they can through their own efforts make progress with their problems. . . .

7. The sense of confidence is also the chief prerequisite for the development of satisfactory external relations with the rest of the world.

### Economic Programs Weighed

It should be apparent that whether economic programs have desirable political and psychological effects in terms of these requirements for the growth of political maturity will depend on how they are carried through. We have had experience with aid programs which justify all the scornful strictures of their opponents, and which have been not merely neutral in their effect and hence wasteful but positively harmful to our interests. . . . But, properly designed and administered, economic programs are one of the few levers of influence available to us which have a serious chance of influencing in important ways political developments in the underdeveloped areas. . . .

Finally, many kinds of economic programs provide opportunities to demonstrate democracy in action which are much more convincing than either abstract discussion or the operation of electoral machinery divorced from real problems. . . .

There are possibilities in international cooperation on economic issues to demonstrate not only the common goals shared by the peoples of one country with those of another but also helpful ways in which those goals are being pursued abroad which correct false images of foreign societies. . . . The United States, in advising and consulting on labor-management relations, on the organization of cooperatives, on agricultural extension, on educational methods, on

land reform, on local government, on training and recruitment of specialists, managers, foremen, civil servants, administrators, and the like, both nationally and especially locally, has endless opportunities to illustrate American values as to democratic action, social responsibility, free mobility of persons, etc., in persuasive ways divorced from the obscurity of unfamiliar ideological terminology. . . .

We have a unique opportunity. We alone in all the world have the abundant resources to make such (economic) growth possible. Others can and should contribute for a variety of reasons. We should promote not an exclusively American program but a partnership program in which all the industrialized countries should be invited to participate. If we take the leadership in such a program we need not fear, and we can even welcome, Soviet participation.

The Communist bloc is probably both unable and unwilling to supply by itself the volume of assistance that could fruitfully be used. As long as we fail to exert leadership and restrict our efforts to a scale sufficiently meager so that the Communist world can afford to match it, communism will make effective political capital out of the aid "competition." But if we take the initiative boldly and on an imaginative scale we can actually encourage Soviet contributions without fear that they will dominate the program. . . .

Economic programs which are neutral with respect to the political issues which rouse men's passions nonetheless can be effective instruments of political influence, not in the sense that they will recruit allies but in the much more fundamental sense that they can develop political responsibility. . . .

An important illustration of this principle is to be found in our policies toward colonialism. We should be more vigorously on the side of freedom and independence for subject peoples. . . .

It would be hard for the colonial powers to deny that a vigorous and worldwide program of assistance to economic development must logically include the colonial areas. . . .

## Period of Development

We are convinced that a skillful program of economic and technical assistance could both accelerate independence and take much of the dynamite out of the symbols of colonialism if it is pursued with vigor and imagination well before the dynamite has begun to explode.

The central proposal of this paper is that the United States should, for reasons stated in the preceding section, take the leadership in a new international partnership program for world economic growth. The purposes of the program would be first to make available sufficient capital

to permit the low-income countries to launch an ultimately self-sustaining process of economic development, second to stimulate and assist the underdeveloped countries to overcome obstacles to their own development other than capital availability, and, third, to create a climate of international economic activity in which the economies of the industrialized countries of Europe and Japan, as well as the United States, could flourish and continue to grow. . . .

Once societies are stirred from the lethargy of traditional economic stagnation, their transition to mature self-sustained growth can be divided into three phases.

First, there is a substantial period during which the preconditions for economic progress are established. The idea that economic progress is possible spreads. Education, for some at least, broadens and changes to suit the needs of modern economic activity. New enterprising men come forward willing to mobilize savings and to take risks in pursuit of profit. . . .

Second, there is the complex transition to a position where sustained economic growth becomes possible. . . .

Third, comes the long stage of regular if fluctuating progress. Some 10 to 20 per cent of the national income is steadily invested. The structure of the economy changes unceasingly as technique improves. . . .

Finally, when the country has demonstrated its capacity for growth, two things reduce the requirement for extraordinary channels for the provision of outside capital. First, the country is now generating out of its own rising output the resources to plow back into its own capital formation; and, second, investment opportunities are emerging which compare favorably in profit prospects with those in other developed countries. Thus the normal channels of international capital supply can be relied on to take over the burden of any net capital inflow still required. . . .

## Preconditions for Growth

In the light of this analysis it is essential to note that the following proposals do not open the United States up to an endless, open-ended world-wide claim on its resources. Our object is to assist countries in establishing the preconditions for growth (mainly through technical assistance) and to assist them with capital in the decisive period of transition. When a country has passed the transition, it should be in a position to operate on its own with and only from normal international capital market institutions. Our proposals do not involve American commitments beyond a margin of resources which we can mobilize without great strain.

The central proposal here put forward is that the United States should participate with the other developed nations in a program designed to give assurance to any underdeveloped free world country that it could secure as large a volume of resources as it could demonstrate that it could use productively on fairly strict criteria of productivity. . . .

We believe . . . that the amounts which would be taken up under such an offer over the next 10 years or so, while higher than current levels of international capital movement, would not at the most be more than three or four billion dollars a year higher. Only a portion of this amount would need to be in the form of funds provided by the United States Government, a major fraction of that portion could be in the form of loans rather than grants, and a substantial part of it could be supplied in the form of United States agricultural surpluses.

## Allocation Considered

If this program were adopted, the problem of how to allocate the available funds equitably among recipient countries would not arise. Every request for assistance which met criteria of productivity . . . would be granted.

. . . The leverage exerted by such a program on economic and political development would operate in two ways. In the first place, the additional resources would make possible programs that cannot now be implemented for lack of foreign exchange or local funds or both. In the second place, great pressure would be placed on recipient governments to take the steps required to make their countries eligible for assistance of this kind. . . .

The essence of the partnership plan here proposed is that it would remove the one bottleneck over which the underdeveloped countries cannot have much control—lack of capital. If the plan were adopted, each free world country would

know that whenever and wherever it was able to demonstrate that it could use resources productively in the context of a sensible program, the resources would be made available without any sort of military or political strings. . . .

The plan would squarely place the burden of responsibility for economic growth on the underdeveloped countries themselves. . . .

This incentive effect of the plan will be strong only if a number of conditions are satisfied. First, the recipient countries must be convinced that the plan does not have narrowly political or military objectives. . . .

This does not mean that money should be given away "without strings." A set of criteria should be established by an international body in which both supplying and recipient countries would participate. . . .

These would include a condition that development be undertaken for the benefit of the entire population of the recipient country, and that the goals of the development program be referred to and approved by the electorate in a genuinely democratic manner. . . .

This suggests that the sponsorship of the program must be international rather than national. If the criteria for eligibility are established by an international body in the deliberations of which the recipient countries themselves participate, they will have confidence that these criteria are not political. . . .

We believe the incentive effects of the plan will be much more pronounced if it is world wide in application than if it is limited to one or two regions of the world like Southeast Asia and the Middle East. . . .

Finally, the program will have very little incentive effect if it is not assured of continuity over a number of years. . . .

## Problem of Specialization

What of Japan and the industrialized countries of Western Europe? Their problems can also be met in large measure by a plan of this sort. They no longer face a shortage of resources for self-reinforcing development, but they do face a problem of international specialization correlative to that faced by underdeveloped countries. . . . They need two things: markets in which they can sell those goods they can produce most cheaply, and sources for food and raw materials which they cannot efficiently produce at home.

If development elsewhere in the world takes forms which provide these expanded markets and increased supplies, the industrialized countries can continue to grow. . . .

The second element of the plan required for the growth of the industrialized countries is a serious effort on the part of the United States to open its markets on a long-term basis to producers elsewhere in the world. . . .

Many of the underdeveloped countries have a huge unutilized resource available to be used for developmental purposes in their unemployed or underemployed labor force. In most of the Asian countries there are many people now idle or ineffectively employed whose labor, if mobilized, could be used to build roads, buildings, canals, and irrigation works, to reclaim land, to modernize villages, and the like.

They remain unemployed for three reasons. First, the governments of these countries may not have the administrative skills or the supervisory

talent to put them to work. Second, there is a lack of equipment—necessary in even the most labor-intensive projects, if only hand tools—to be used by the workers. Third, the additional demands for food and fibers which would result from hiring presently undernourished workers and paying them a money wage would result in inflation of prices in the country in question. This last difficulty can be met by importing agricultural commodities to cover the additional demands of newly employed workers.

Thus, where administrative bottlenecks can be overcome and where capital equipment can be made available, agricultural commodities can be an important part of development assistance. Where these other two conditions are not met, the movement of agricultural commodities to underdeveloped countries can have very damaging effects. For if there is an increase in agricultural supplies without any corresponding increase in demand, agricultural prices may fall sharply, reducing the incomes of peasants and slowing or stopping programs of agricultural and village improvement. Furthermore, some of the underdeveloped countries are themselves exporters of agricultural surpluses, and depend on the sale of these surpluses for the imports which they, in turn, require for their own development. Thus the unplanned dumping abroad of agricultural surpluses can be much worse than useless. It can be disastrous.

## Economic Bottlenecks

Experts who have looked at the problem are convinced, however, that in the context of a development program which also provides capital goods and which is planned for some years ahead in the light of the various bottlenecks existing in the economy of the recipient country, there are possibilities for the use of a very substantial volume of agricultural commodities in assistance programs. The FAO, for instance, has estimated that something like \$100,000,000 worth of agricultural surpluses could be used annually in India in connection with an expansion of \$250,000,000 per year in her investment program.

It should be emphasized that this is a program which will not achieve its basically political and psychological purposes unless its fundamental features are preserved. Dilution could prove extremely dangerous. The sharp edges of policy which must be preserved appear to be these:

1. The additional sums envisaged must be large enough to remove capital as a bottleneck to growth, under the tough criteria of productivity envisaged.

2. There must be no tie between economic aid and military pacts; and no explicit political conditions within the free world beyond the requirement that development goals be democratically established. An aid program with strings yields satellites, not partners.

3. The plan must look to a long future and envisage a sustained United States effort.

4. There must be a real measure of international contribution and international administration.

Without these elements, the proposal would probably be rejected by some nations we would wish to see join in the effort, for example, India. With these elements maintained, we believe this plan will go far toward restoring and maintaining the unity of the free world.

## THE JAVITS PROPOSAL

by Benjamin A. Javits

May 1956

The Javits proposal is in the form of a draft congressional bill, submitted to the Senate Foreign Relations Committee and the House Foreign Affairs Committee, outlining the necessary machinery by which foreign aid at the government level can be replaced by a viable program of private investment-for-profit abroad.

The Act would create an International Development Corporation to commence and to operate temporarily as a United States government agency to perform world-wide investment and banking functions; and eventually to become a private Corporation.

The Treasury would be issued all Class A stock of the Corporation, value \$100,000,000 (one hundred million dollars), carrying all voting rights. A public issue of 5,000,000,000 (five billion) shares of Class B non-voting stock would be sold in the United States and abroad at the equivalent to the Corporation of \$5 per share. At such time when 2,000,000,000 (two billion) shares of Class B stock have been sold, the Corporation would retire Class A stock at par value, have a complete accounting with the Government and become a private Corporation with voting rights in the publicly-held Class B stock.

The Act would authorize the United States Government to loan large sums of money to the Corporation with which it can supplement its \$100,000,000 capital until such time as it has sold sufficient stock to the public to pay off the Government and be self-financing. The drafters envision the investment potential of this Corporation to be hundreds of billions of dollars over the next twenty-five to fifty years.

The proposal is designed for long-term equity financing, especially in the under-developed areas of the world. Its most salient point is that, for the first time, it would provide the vehicle for the active participation of the mass American public in cooperation with the mass publics of all the nations of the world, in a gigantic people-to-people, business-to-business effort toward the building of economic security for all. Mr. Javits envisions that this program of peoples investing together and in each other toward the solution of economic problems common to all, could sustain prosperity indefinitely, maintain full employment for decades to come, open up markets for world surpluses, raise living standards in all the nations of the world, and significantly further the prospects of permanent peace.

## THE REUTHER PROPOSAL

March 1956

Attached is a copy of the 10-point plan for an "adequate and imaginative long-range program of economic and social construction" set forth by Walter P. Reuther in a letter to Secretary Dulles on March 23rd.

Briefly, the plan envisions a World Fund for Peace, Prosperity and Progress to which the U.S. would commit itself to a contribution equal to 2 percent of our gross national product for a period of 25 years for the purpose of helping peoples of the economically less developed nations to help themselves in developing their own economic resources, raising standards of living, health, education, etc.

The USSR would be urged to participate by making a similar commitment, and the program would be administered through the United Nations and multilateral agencies.

## REUTHER PROPOSAL

### 1. World Fund for Peace, Prosperity, and Progress

The people of the United States, through their government, commit themselves to contribute to a World Fund for Peace, Prosperity and Progress, a sum equal to 2 per cent of the gross national product of the United States for a period of 25 years for the purpose of helping peoples of the economically less developed nations to help themselves in developing their own economic resources and raising their standard of living, their standard of health and their standard of education.

Two per cent of our present gross national product for a 25-year period would be less than what seven months of World War II will have cost the American people in terms of dollars, not counting the priceless and inestimable loss in human lives and human values. While urging a reduction of all forms of armaments under a system of effective and universal control, this United States 25-year commitment should be made without qualifications and would be effective without regard to the success or failure of disarmament efforts.

If disarmament efforts succeed, as we all pray, then the United States would express its willingness to share the economic savings made possible by a reduction in the military budget by contributing 50 per cent of these savings to augment the fund provided by the 2 per cent gross national product allocation. Such a sharing of the savings made possible by reduction in armaments would be for the same 25-year period.

### 2. USSR Should be Urged to Participate

To give substance and to build upon the Geneva spirit, the United States would request the USSR to make a similar commitment to the World Fund for Peace, Prosperity and Progress equal to 2 percent of the gross national product of the Soviet Union for a period of 25 years. Further agreement should be sought to have the USSR commit itself to sharing on a 50-50 basis the economic savings that would result in a reduction of arms spending. All other nations able to contribute to the World Fund for Peace, Prosperity and Progress should be urged to do so within the limit of their resources.

With both the United States and the USSR participating in such a proposal, we could usher in an era of peaceful competitive co-existence with each of our two social systems having an opportunity in terms of peace-time values to demonstrate its worth. Thus the people of the world would have an opportunity to measure political propaganda against practical performance. Such a contest would demonstrate which economic and social system could build and make available the most efficient nuclear reactor for man's peaceful use rather than which could build the most devastating nuclear bomb for man's destruction. In such a contest of peaceful values, I am confident that the free world has a margin of superiority, for only in an atmosphere of freedom can the creative genius of the human spirit find full expression.

### 3. Program Administered through U.N. and Multi-Lateral Agencies

The United States should propose that the World Fund for Peace, Prosperity and Progress would be administered through the United Nations either through existing special agencies or through the creation of a new special agency so that the broadest possible multi-lateral approach can be made to the problem of economic and social construction.

### 4. Sharing Our Food Abundance

In a world half-fed and half-starving, America's food abundance must be considered a great blessing. Much of the world suffers from a serious food shortage and, so long as people are hungry and exist on inadequate diets, America cannot consider that there is a food surplus. The best, most sensible and moral place to store food surpluses is the empty bellies of half-starved people.

This generous share of our food abundance over a long period, until the economically less developed areas of the world can adequately increase their own food supplies, would release the spiritual force of human solidarity, which would be of greater power than all the H-Bombs in our stockpile. Provisions could be made to insure that the distribution of America's food abundance would be used to raise and improve the diets of needy people under arrangements that would not dislocate the economy of any country that exports grains or food stuffs.

### 5. Creation of a Federal Scholarship Program to Train Technical Task Force

The United States should create a federally-financed scholarship program to expand and to expedite the training of competent and

desperately needed scientists, doctors, engineers, teachers and technicians to serve as a technical task force wherever needed and desired to help carry out the program of the World Fund for Peace, Prosperity and Progress.

Students should be awarded scholarships on the basis of competitive examinations. Upon the completion of their schooling within their respective fields of choice and in keeping with the high academic standards required, these young Americans will have contracted to serve in any country where their training and competence is needed and desired to implement the program of the World Fund for Peace, Prosperity and Progress. Such service as a technical missionary would be for a period of one year greater than and in lieu of their normal military service.

There can be no doubt that the more young Americans we are prepared to train and send abroad as a technical task force in the positive struggle against poverty, hunger, ignorance, and disease equipped with slide rule, test book and medical kit, -- the tools of peace -- the fewer we will need to send abroad with guns, flame throwers and the weapons of war.

The cost of this scholarship program shall be charged against the 2 per cent of our commitment of gross national production.

6. Economic Aid Available Equally to Unaligned as Well as Aligned Nations

United States economic aid should be made available to every free and independent nation without any political strings whatsoever. Aid should be made available both in loans and outright grants on the basis of need, giving equal consideration to nations who choose to join alliances and those who choose to remain unaligned.

Totalitarianism may insist upon political conformity but the free world must achieve unity in diversity. Such a clearly defined and executed policy will dispel both by words and deeds the confusion and concern of our friends in certain of the unaligned nations. America must make it clear that we have no desire to remake others in our own image, that our only motive is to build and strengthen a just and lasting peace and to make freedom and social justice universal.

## 7. United States Aid Available At Once

While the United Nations is considering the creation of the World Fund for Peace, Prosperity and Progress, the United States shall begin at once to make its contribution of 2 per cent of its gross national product and shall cooperate in expending these funds through existing multi-lateral agencies such as SUNFED, the Colombo Plan and such other multi-lateral agencies wherever possible and practical.

## 8. Long-Range Economic Commitments

Long-range economic commitments are essential in dealing with long-range economic problems. Outright grants should be made where the need is great and urgent, on a common sense economic approach. Loans should be long-term with low interest rates and repayable in trade or currency at the option of the nation receiving the aid. There should be a moratorium on the payment of interest and principal until living standards of a nation receiving such aid have been raised to the level adequate to provide basic living necessities in food, clothing, shelter, health and education.

## 9. Anti-Colonialism

The hundreds of millions of people in the economically less developed nations need our economic aid but their need for our friendship and our understanding is equally great. Some of these people have just won their struggle for political independence while others are still engaged in that struggle.

In many areas of the world where men struggle to be free, they borrow the slogans and they draw inspiration from the American Revolution. Millions are dedicated and determined to give life and meaning to the words, "All men are created equal." Washington, Jefferson and Lincoln are their heroes. Unfortunately, some of these people, while following in the footsteps of the American Revolution, feel that America's material prosperity has dimmed our image of our own Revolution and has weakened our faith in its principles. We need to dispel this doubt and, by word and deed, reaffirm America's devotion to the ideals of human freedom and the worth and dignity of the individual which inspired the American Revolution.

We need to speak out clearly and act courageously against all forms of colonialism. We need to make it unmistakably clear, regardless of our military alliances, that we are opposed to all forms of colonial domination on moral grounds and that we support the rights of all people to political independence and self-determination.

## 10. Race Relations and Equal Opportunity at Home

Moral stature is an indispensable ingredient to the nations who would share in the leadership in the free world. Our moral standing will be judged by the peoples of the world, not by our slogans but rather by how we meet the challenge of providing equal opportunity of political and economic citizenship to all Americans, regardless of race, creed or color.

One-half of the world's people are dark in skin and their experience with the white man, most of which took place during a period of colonial domination, has been a bitter one. They look to America and they shall pass moral judgment on America by the degree of moral courage and enlightened responsibility that we apply in ending discrimination and second-class citizenship in America.

The full implementation of the historic decisions of the Supreme Court offer us an opportunity to demonstrate America's continuing dedication to moral concepts and human values. Only thus can we square American democracy's practical performance with its noble promises in the field of race relations. Only thus shall we be able and worthy to contribute to moral leadership in the free world.

This is an election year, and election years are supposed to breed timidity and caution. World events and human needs, however, will continue to demand our attention. There is no reason to suppose that the American people are not acquainted with this simple truth. Nor is there any reason to believe that the American people, regardless of party labels, will shrink, from commitments that are necessary, that are honestly explained and seriously advanced in the search for an honorable and durable peace.

The Committees of Congress will shortly be holding hearings on economic aid. Upon your return from Southeast Asia, you can reach the American people through these committees and directly. You can tell them where we stand in the unaligned reaches of the world. You can appeal to Congress and the people for a reversal of the trend that runs to military preparedness almost to the exclusion of the economic support without which crucial areas of the earth may falter, nullifying the effect of all our alliances.

The American people will listen and they will sanction the boldest action geared to those positive peacetime ends. For they will understand that the costs of such a program will ultimately be reckoned, not in dollars and cents alone or primarily, but in millions of lives spared, in nations not devastated by hydrogen bomb attack, in civilization saved from ruin, in humanity freed for action in the never-ending and rewarding tasks of peace.

KRUPP'S PROPOSAL OF POINT IV $\frac{1}{2}$

March 1956

Attached is a copy of the proposed program of technical assistance to be sponsored by private enterprise on a joint international basis, which was originated by Friedrich Krupp, of Essen, Germany, and submitted by Berthold Beitz, General Manager of Fried. Krupp, Essen, to the Department of State early in March.

The proposal is based on the general premise that there is need for a private enterprise program of industrial development which will (1) place technical assistance on a "trade not aid" basis; (2) eliminate suggestions of political influence and pressure; (3) utilize technical skills available to private enterprise; (4) provide more efficient and economic management for technical assistance; and (5) eliminate the appearance of military influence in the program.

The plan envisions that the U.S. would provide credits on somewhat more liberal terms than is customary and lend psychological and moral support to a program of construction of capital projects by international syndicates of companies experienced in the field. Proposals for the construction of steel plants, bridges, hydroelectric stations, etc. would be formulated by the underdeveloped countries and contracts awarded to an international syndicate. The syndicate would extend the required credit to the underdeveloped country, but would in turn "probably need governmental banking assistance which could only be provided by instrumentalities of the U.S. Government, although some credit needs could undoubtedly be provided by private sources."

## KRUPP'S PROPOSAL OF POINT IV $\frac{1}{2}$

### Program of Technical Assistance Sponsored by Private Enterprise on Joint International Basis

#### I. Nature of Proposal

Point IV $\frac{1}{2}$  is an extension, with certain very significant modifications, of the U.S. Governmental technical assistance known generally as Point IV. The modification may be summarized, as follows:

- (a) Point IV $\frac{1}{2}$  projects will be carried out - not by the U.S. or any other government - but by a syndicate of private firms - American, German, British, French and possibly others - on a "profit" and not a "giveaway" basis.
- (b) The governmental assistance to Point IV $\frac{1}{2}$  projects will be limited to (i) the extension of credit on somewhat liberal terms and (ii) psychological and moral support.

These differences may be graphically outlined by considering as illustrative the construction of a bridge over river Y in Country X. Let us further assume that the bridge will be built for Country X rather than a toll or other private company. A syndicate would then be formed of companies in the other countries above mentioned, which are skilled in bridge construction and the fabrication of bridge materials. Such companies would pool their skills and resources and negotiate for the job at a price which would be paid by Country X and would provide a profit to the syndicate. Since the payment of such price would undoubtedly require the extension of credit over varying periods--possibly up to 10-12 years, such credit would be given to Country X by the syndicate. The syndicate in turn would probably need governmental banking assistance which could only be adequately provided by instrumentalities of the United States Government, although some credit needs could undoubtedly be provided from private sources. Credit would not, however, be extended to Country X by the United States.

The composition of the construction syndicate might vary as the construction projects varied, although it seems likely that a few companies would, because of the scope of their skills, be included in all syndicates.

Fried. Krupp, Essen, has been engaged in this work for some years and is particularly fitted and willing to act as a focal point of this program. Aside from the past experience of Krupp, the selection of a German company as syndicate manager avoids the more obvious aspects of the "colonialism" charge.

## II. The Advantages of this Approach

The advantages of this private profit-private enterprise program as distinguished from a governmental giveaway or loan program are many. A few of the more important advantages may be summarized, as follows:

- (a) Technical assistance can be placed on a "trade, not aid" basis, thus pleasing both the recipient and provider of the assistance.
- (b) Suggestions of political influence, pressure and purpose should be minimized, if not completely avoided.
- (c) The technical skills available to private enterprise will be of the highest.
- (d) Economic assistance on a profit basis can be much greater than on a giveaway basis.
- (e) Private management of this program should be more effective, efficient and economical.
- (f) The military significance of economic aid will be minimized.

## THE PINEAU PLAN

The Pineau Plan, originated by Christian Pineau, the French Foreign Minister, was presented to the NATO Council on May 4, 1956. It is based on the premise that the slow pace of economic development in certain areas of the world, where poverty is still an element of instability and subversion, makes it advisable to formulate a common stand which NATO countries might adopt and suggest to other countries in an effort to find the most suitable methods for improving the situation which is not only intolerable from a human standpoint but a threat to world peace.

The purpose of the plan is not to supersede existing aid programs, but rather to bridge certain recognized gaps and improve assistance methods against which criticisms are frequently levelled not unreasonably.

### The basic ideas set forth in the Pineau Plan are:

- 1) It is necessary, under the circumstances, to maintain existing treaties and organizations, and in particular, those through which the Atlantic solidarity may most efficiently express itself.
- 2) Other powers, especially aid recipients, must not have the impression that these treaties or organizations are means of political pressure. Consequently, NATO nations should agree on a common stand within an agency selected for allocating aid.
- 3) It would be appropriate for the public to know the accurate amount of aid given by each country to other nations of the world.
- 4) It would be advisable to set up a sort of international "super-compensation", making possible special efforts for countries who have not been aided, or aided only minimally.
- 5) Such aid would have the benefit of better psychological conditions, especially if some agreeable international control is provided.
- 6) Such aid operations would be facilitated by a stabilization of world prices of raw materials.
- 7) Aid should involve financial conditions corresponding to a normal return on work undertaken, which implies a policy providing for reduced rates of interest, longest terms of payment and more flexible regulations concerning credit and insurance.
- 8) Aid operations should contemplate triangular efforts, so as to enable states with an unsatisfactory financial situation but great industrial possibilities to participate on a larger scale in the common effort.

9) Technical assistance must play a great part in the undertaking because it enables interested countries to bring their fullest contribution to their own development.

10) In order that aid recipients may feel that their freedom of action is unimpaired, it would be advisable that an independent international organization be entrusted with the study of large-scale undertakings. Interested countries would then choose their contractors.

The Pineau Plan calls for the establishment of an agency for World Economic Development.

In order to translate the foregoing ideas into action, the French Government suggested that the NATO Council member nations propose to the United Nations the establishment of a World Economic Development Agency (W.E.D.A.). The Agency would include:

A) A steering board responsible to UNO, on which would sit, besides the main states granting aid, representatives of the states receiving aid. The main task of this committee would be, with regard to requirements, to secure the most suitable utilization of available resources and the coordination of efforts.

B) A statistical office, which would centralize the amount of all efforts made or planned in favor of underdeveloped countries.

C) A Bank or Fund, to be in charge of credits which would be imputed to SUNFED and the various assistance programs of the UN, in close contact with the International Bank and the International Finance Corporation. The Bank would receive the contributions of member states and keep account of the efforts made by each country directly or indirectly for the common endeavor. It would grant the kind of aid which the steering board deemed most appropriate.

D) A commercial agency (or center), to buy and resell surpluses of beneficiary countries.

E) A technical institute with two branches: (1) technical assistance; and (2) study, research and prospection.

The cost of operation would be covered by the Bank, which would deduct to this end the relevant amount from the contributions of member states.

Each year the steering board would submit to the ECOSOC an overall report on the work of the above bodies.

## THE TAKASAKI PROPOSAL

February 1956

Tatsunosuke Takasaki, Director General of Japan's Economic Planning Board, early this year proposed the establishment of an Asian development corporation to be financed equally by the United States and participating Asian nations. Mr. Takasaki is a former successful Japanese industrialist, a former governor of the Manchurian Heavy Industry Development Corporation and, just prior to his present post, chairman of the Japanese Electric Power Development Company, one of Japan's most successful governmental planning and administrative bodies.

The proposal calls for an original capitalization of from \$100,000,000 to \$200,000,000, and envisions the setting up of a corporation which would ultimately become self-sustaining from the original grant.

The function of the corporation would be to survey and help finance development projects in member Asian countries which would serve not only the country where the development was to take place, but would benefit one or more Asian countries as well. Suggested projects Mr. Takasaki felt could be partially financed through such a corporation included the following:

1. Development of coking coal deposits in Taiwan.
2. Development of Indian rail and port facilities to expedite the export of iron ore urgently needed by Japan and other industrializing nations of Asia.
3. Exploitation of Philippine low-grade copper deposits.

Mr. Takasaki envisions that the United States would organize and help finance the corporation, and then supervise its operations. However, members of the United Nations Economic Commission for Asia and the Far East or the Colombo Plan would participate in the organization.

Mr. Takasaki has been described as "a friendly Japanese critic of U. S. assistance programs in the Far East", and he regards his proposal as a low-cost plan for using United States aid to help Asians to help themselves.

UNITED STATES FOREIGN POLICY

1945-1955

A critical appraisal of the international situation  
and the evolution of United States foreign policy from 1945-55

by the Brookings Institution

August 1956

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This report is the eighth in a series of annual surveys inaugurated by the Brookings Institution in 1947 on Major Problems of United States Foreign Policy, the principal purpose of which was to identify and analyze the problems of decision that confronted American policy makers as they sought to realize the objectives of the United States in the circumstances that prevailed in the world.

The present volume seeks to present a picture of American purpose and action as the United States moved from a war in which it was a dominating power to a postwar situation in which it sought to shape, by agreement with other states, a particular kind of international system, and then into a situation in which it was obliged to act unilaterally as a major power in an international system that was taking quite a different form. By focusing attention on the key decisions that were made and the alternative courses that were available, the authors have sought, by employing the "problem approach", to reflect an emerging pattern of United States policies and actions during the period that were the consequence of an unbroken series of interlocking choices, only some of which were American.

Part One of this report considers the American goals in world affairs at the end of the Second World War. It surveys briefly the evolution of the American view of foreign affairs and of the interests of the United States and the aims of United States policy as these were officially stated at the end of the Second World War.

Part Two is devoted to a running account of the United States policy choices that were made from 1947 to 1950 and of the considerations and guidelines that influenced these choices.

Part Three deals with the period since 1950. It opens with a generalized analysis of the structure of the international system as it evolved from the Second World War. It then considers the shifting framework of interpretation and purpose that guided the choices of

United States policy makers as they sought to develop and maintain a secure and satisfactory position for the United States in this unstable system.

Part Four examines the present position of the United States. It opens with an analysis of the changes that have taken place in the position and role of the United States in the international system. It then examines the case for a comprehensive review of American purposes and patterns of action, and notes the framework within which such a review might be expected to take place. The volume ends with a survey of the broad range of choices that appear to be open to the United States as the second decade of postwar history begins.

### The Framework for Policy Review

In its penultimate chapter, the report states that the United States Government has clearly given signs that its machinery of decision and action was being directed toward a broad and comprehensive review of the American position, the American goals, and the existing ways for approaching those goals. It seeks to outline a general framework of estimate, judgment, specific questions, and concrete issues within which any re-examination of the position of the United States must proceed.

According to this analysis, such re-examination must be directed: first, to drawing a working picture of Soviet objectives, both maximum and minimum; second, to matching this picture with a view of the way in which the international system is now likely to operate; and third, to a reformulation of American purposes and to a re-examination of American capabilities. From this process will presumably be derived restated policies with restated objectives, adapted to meet Soviet intentions and capabilities in the prevailing circumstances.

The specific problems, at least the specific areas in which the key problems of American-Soviet, or free world-Communist world relations are seen to exist are Germany and Central Europe, Southeast Asia, and the Middle East. And the problems of these areas are still subsumed in the more comprehensive problem of competing security organizations and systems. The authors believe that a re-examination of the various alternative accepted approaches of the U. S. to these problems may bring about an examination of a very basic question: What kind of structure of the international system is at the maximum desired by, or at the minimum acceptable to, the United States?

The study calls for a re-examination of the policies of economic assistance, and points out that they have, for some time, been increasingly linked with the policy of alliances, and have tended to become inflexible as that policy has become rigid. The question then comes up for discussion whether their substance can be retained while emphasis and purpose are shifted to gain flexibility. The report states that the administration went on record at the start of 1956 as believing that this step was not only possible, but desirable and necessary.

This, however, tends to throw the question of economic aid, as well as of alliances, into the context of Soviet-Communist intentions and capabilities. And when the whole review of the American position, objectives, and policies is carried on primarily in this context, it brings to life a range of continuing issues, many of which are the old familiar ones of the geographical concentration of American action: Is Europe the primary issue? Or Asia? Or should action be taken as required on the global perimeter of the Soviet bloc? Or should the defense perimeter be defined in relation to the Western Hemisphere alone?

The report points out that prior to 1954 the last of these questions was not argued separately from the larger issue of the degree and form of United States participation in the affairs of the international system. The defense of the Western Hemisphere as a sole security policy for the United States existed only as the strategic component of a policy of reducing American participation in the international system to a minimum.

This full range of discussion was largely at an end by 1954. The United States was a participant in the world system. The purpose of participation was to develop collective security action in the free world. The technique of participation was a policy of alliances supported by programs of assistance. The pivotal area was Western Europe. But if the structure of the international system should no longer prove receptive to action along this line, all of these questions might be reopened.

They would be reopened, however, in a context very different from that of a bipolar world. In a bipolar system, the American pattern of objectives and policies could be applied universally with some validity. A program of economic assistance leading to political stability, then the support of an alliance, and finally to a system of co-operative defensive action was a valid concept in a world presumed to be tending toward two organized power groupings.

If, however, the world tended away from bipolarity, a logical progression was no longer possible from a generally applied program of assistance to a single objective of collective security action. Execution across the board would break down first. While economic aid to Western Europe sought to put teeth into the NATO, economic aid to Southeast Asia, even though defined as putting teeth into the Southeast Asia Collective Defense Treaty, would run into resistance if its aim were thus restricted. Actually, the goal would be economic development. As this goal was approached, the recipient states would in fact become freer to choose whether their next step would be to help to put teeth into the new organization, or to pull away from collective action and to develop national policies to the maximum.

Other questions discussed in the report which become subject to re-examination in an overall review include strategic control of

East-West trade, the thesis of massive retaliation, the major issue of accommodation between the United States and the Soviet Union, and the minor issue of disarmament. The problem of disarmament is defined as "minor" in relation to accommodation because it is considered improbable that disarmament proposals will become operative in the absence of persuasive evidence of accommodation.

A variety of conclusions emerge from the report's discussion of alternative judgments. The situation of the free world has deteriorated, and the policies of the United States have been seriously frustrated. Alternatively, United States policies have forced the Soviet Union to check its course of armed aggression and to turn to tough diplomatic, economic, and ideological competition instead. Both estimates conclude that the United States should carry on with its present pattern of policy: the former calling for greater effort and greater sacrifice, the latter for different emphasis within the pattern. The report states that no one has yet suggested all-out action to reverse the trend and to bring the free world firmly into line with American purposes. In the same way, no one has yet suggested that the trend is consonant with American purposes and should be encouraged even at the price of significant shifts in policy. In short, the authors believe the full scope of the issue has not yet been fully revealed, and the full implications of the basic alternatives have not yet been explored, although there is much in the recent record of events to suggest that a key point of decision may be involved.